Oregon Public Employees Retirement System

2015-17
Governor's Budget

Appendix 2 and 3

Agency Presentation to the
Joint Ways & Means Committee
General Government Subcommittee

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March 16-18, 2015

PERS Oregon Public Employees Retirement System

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PERS Oregon Public Employees Retirement System

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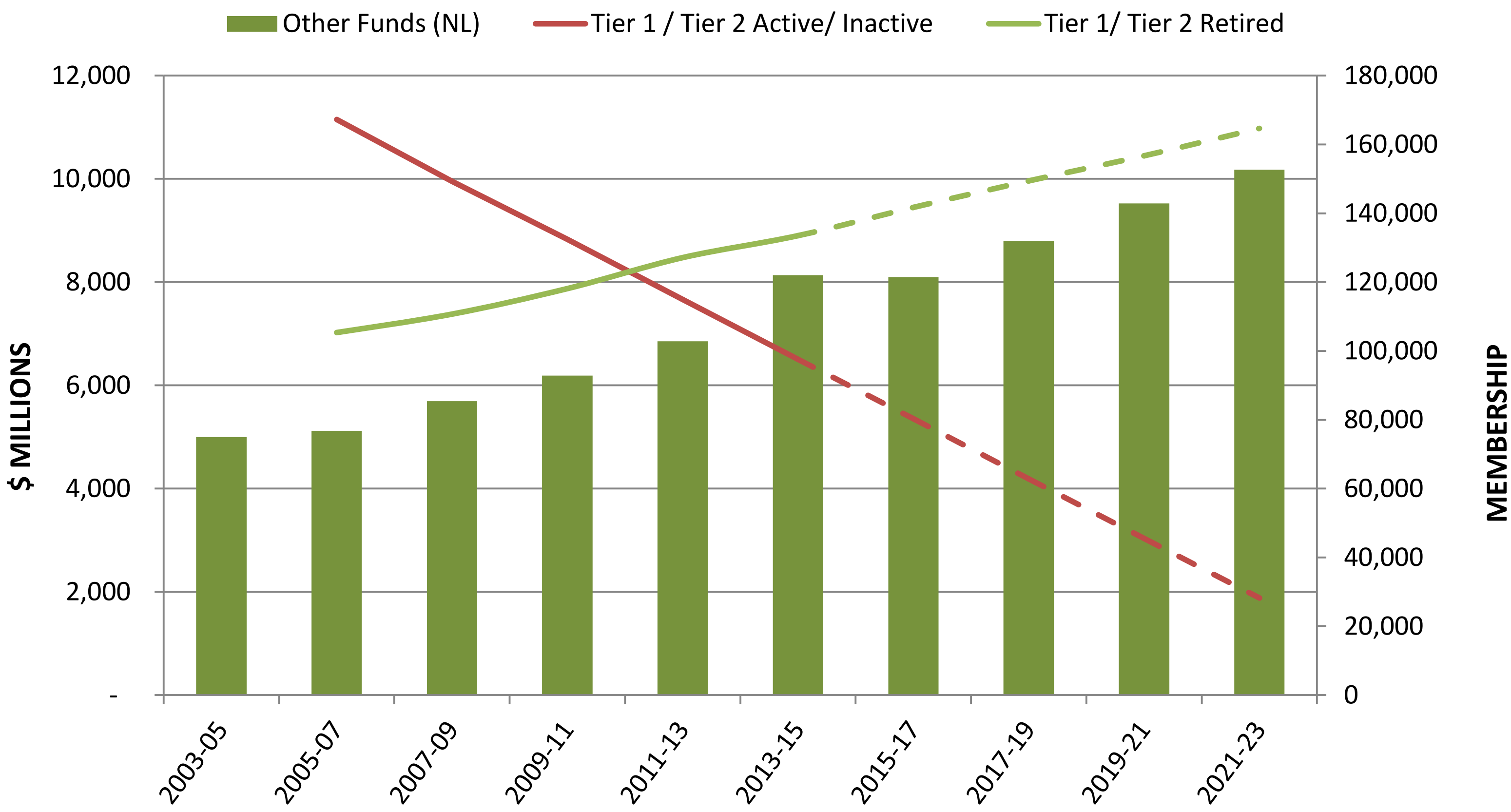
Tier One and Tier Two Program
(Non-Limited Budget)

Primary Outcome Area: Improving Government
Secondary Outcome Area: (None)
Program Contact: Steve Rodeman, 503.603.7695



Tier One and Tier Two Program
(Non-Limited Budget) (continued)

Executive Summary
The Tier One and Tier Two Program represents administration of active and inactive member accounts and benefit payments to retired members of these legacy plans, defined in ORS Chapter 238, that are now closed to new members. Benefit payments include retirement allowances, account withdrawals, death and disability benefits, and health insurance premium pass-through and subsidy account disbursements. Administration of the programs includes receiving contributions on behalf of active Tier One and Tier Two members, providing information and services to members, and processing retirements of Tier One and Tier Two members. All such funds are held in trust for the exclusive benefit of the plans' members. These plans were closed to new members as of December 31, 1995, for Tier One and August 28, 2003, for Tier Two.

Performance Achievement: Requested Non-Limited Other Funds support the agency mission to administer public employee benefit trusts to pay the right person the right benefit at the right time. Performance achievement is measured through legislatively mandated Key Performance Measures, quarterly reporting of internal core operating and supporting business process measures, and monthly reporting of member transaction volumes and processing timeliness.

PERS Oregon Public Employees Retirement System

Tier One and Tier Two Program
(Non-Limited Budget) (continued)

<u>Program Description</u>

The Tier One and Tier Two Program administers public employee benefit trusts for approximately 115,000 active and inactive (non-retired) members and approximately 127,000 retired members. Tier One membership was closed to new public employees hired on or after January 1, 1996 and Tier Two was closed to new public employees hired on or after August 28, 2003. New public employees now join the Oregon Public Service Retirement Plan (OPSRP), a separate program. Benefits paid through the Tier One and Tier Two trusts include account withdrawal, retirement benefits, death, and disability benefits to members, their beneficiaries, or alternate payees.

Even though membership in Tier One and Tier Two is closed to new employees, administration of and workload associated with benefit payments will increase over the next decade as these members age into retirement. As of June 30, 2014, more than 51,000 Tier One and Tier Two members are eligible to retire based on age or years of service.

After our first round presentation, the Program Funding Team asked that we address the cost shift from having closed these programs and putting new members into the OPSRP program. Since OPSRP was created in August 2003, membership in the program has grown to almost 50% of the total active and inactive population of PERS. From a cost perspective, however, that shift only affects the “normal cost” of benefits: the incremental cost each year of new benefits accrued by active members.

Tier One and Tier Two Program
(Non-Limited Budget) (continued)

<u>Program Description (continued)</u>

PERS costs are rising not because of this "normal cost" factor but rather because of the Unfunded Actuarial Liability (UAL) that emerged when the PERS Fund lost 27% of its value during the 2008 recession (and subsequent investment performance that was slightly below projections). The impact of that loss, as reflected in the System Valuation as of December 31, 2013, is a UAL of $8.5 billion (excluding pre-paid employer contributions deposited in side accounts).

The cost shift to OPSRP will not be fully realized until membership and associated liabilities with of the Tier One and Tier Two program is reduced more significantly and membership and associated liabilities of the OPSRP program becomes predominant. That tipping point is decades away. PERS was created in March 1945, and Tier One members joined the program until 1996. Tier Two members joined the program from 1996 to 2003. The life cycle of closed programs like Tier One and Tier Two extend another 50 years after its closure, as late entrants complete their full career and receive their retirement benefit for years after retirement. Consequently, Tier One member benefit payments (funded through this program) are not expected to peak until closer to the 2027-29 biennium. Even after that peak, the decline will be gradual.

Tier One and Tier Two Program
(Non-Limited Budget) (continued)

Program Description (continued)

After our first round presentation, the Program Funding Team asked that we address the long-term projected costs and how they might impact plan design. At their September 26, 2014 meeting, the PERS Board discussed the December 31, 2013 system-wide valuation which is the basis for 2015-2017 employer rates. Due to the impact of 2013 legislative reforms and positive investment returns, the 2015-2017 system-wide un-collared average system base rate is 18.18% which is less than the 23.08% base rate for the 2013-15 biennium.

This program is funded through public employee benefit trusts that are subject to federal and state laws and rules governing tax-qualified government retirement plans. One fundamental provision of those trusts is that the contributions (both from employers and members) and their associated investment earnings can only be used for the exclusive benefit of those members to fund their benefit payments. Consequently, the funds expended through this program can only be used to support the services and benefits provided within the program.

Tier One and Tier Two Program
(Non-Limited Budget) (continued)

Program Justification and Link to 10-Year Outcome

The Tier One and Tier Two Program aligns to the goals and strategies of the Improving Government area of 10-Year Outcome planning. This program is still a major defined benefit component of the public employee retirement plan, which covers all state agencies, schools, and over 90% of eligible local government employees.

Benefits from the program are delivered through the lowest-cost administrative structure. The fundamental advantages of a multi-employer defined benefit plan are institutional investment of the fund, which enhances returns to members and reduces investment expenses; risk sharing pools, which spread the impact of actuarial experience over a broad base; benefit portability, which allows members to transfer among participating employers without impacting benefit accruals; and unified administration, which enhances professionalism and improves economies of scale. Those advantages allow member and employer contributions into the system to provide the maximum positive economic impact to local economies when retiree benefits are spent in local communities.

A June 2014 Economic Impact Study of PERS shows that in 2013, the $3.2 billion in annual benefit payments to Oregonians multiplied to $3.8 billion in economic value when the financial impact of dollars spent in local communities is considered. The benefit payments sustain an estimated 34,712 Oregon jobs, and add approximately $1.07 billion in wages. Additionally, Oregon collected an estimated $159 million in income taxes on PERS retiree benefits in 2013.

Tier One and Tier Two Program
(Non-Limited Budget) (continued)

Program Performance

Fiscal Year	Total Active/Inactive Members	Total Retired Members	Tier One/Tier Two Program Expenditures (Non-Limited) ($)	Annual Admin. Cost per Member ($)
2007	167,225	105,336	2,644,979,805	140
2008	158,663	107,643	2,844,860,121	136
2009	149,331	110,694	2,852,825,977	140
2010	142,071	113,349	2,962,604,243	121
2011	132,453	118,105	3,252,686,903	115
2012	125,502	121,455	3,350,039,210	124
2013	114,901	127,114	3,596,111,863	127

The table above shows the distribution of PERS Tier One and Tier Two membership as "Active/Inactive Members" (those members either currently employed or who have left employment but are still entitled to a benefit) and "Retired Members" (those having elected to receive their benefit). As more members of the population move into receiving benefits, the "Program Expenditures" shows the growth in the number and amount of Tier One/Tier Two benefit payments distributed. Even with this growth, the agency's overall administrative "Costs per Member" have been historically lower in the past seven years as operational efficiencies, including the development and deployment of new technology systems, have enabled PERS to increase distributions (and the related member services) while decreasing the incremental administrative costs.

Tier One and Tier Two Program
(Non-Limited Budget) (continued)

Enabling Legislation/Program Authorization

The program is governed by the following Oregon Revised Statutes and Administrative Rules: The Tier One and Tier Two Plans are authorized by Oregon Revised Statutes (ORS) 237.600 to 237.980, 238.005 to 238.492, and 238.600 to 238.750.
Oregon Administrative Rules Chapter 459
The benefits provided under the program are protected by provisions in the U.S. and Oregon Constitutions regarding contracts. Courts have construed these benefits as public contracts with the members, which can only be altered under very limited circumstances.

Funding Streams

This program is funded entirely from member and employer contributions and the return on investment of those contributions, which are held in the Public Employee Retirement Fund (PERF). In accordance with ORS 238.660(2), funds in the PERF can only be used for the exclusive benefit of the members' trusts. ORS 238.661 further provides that moneys in the PERF are continuously appropriated to the Public Employees Retirement Board for the purpose of implementing plan requirements. Expenditures under this program are categorized for state budget purposes as Other Funds – Non-limited.

PERS Oregon Public Employees Retirement System

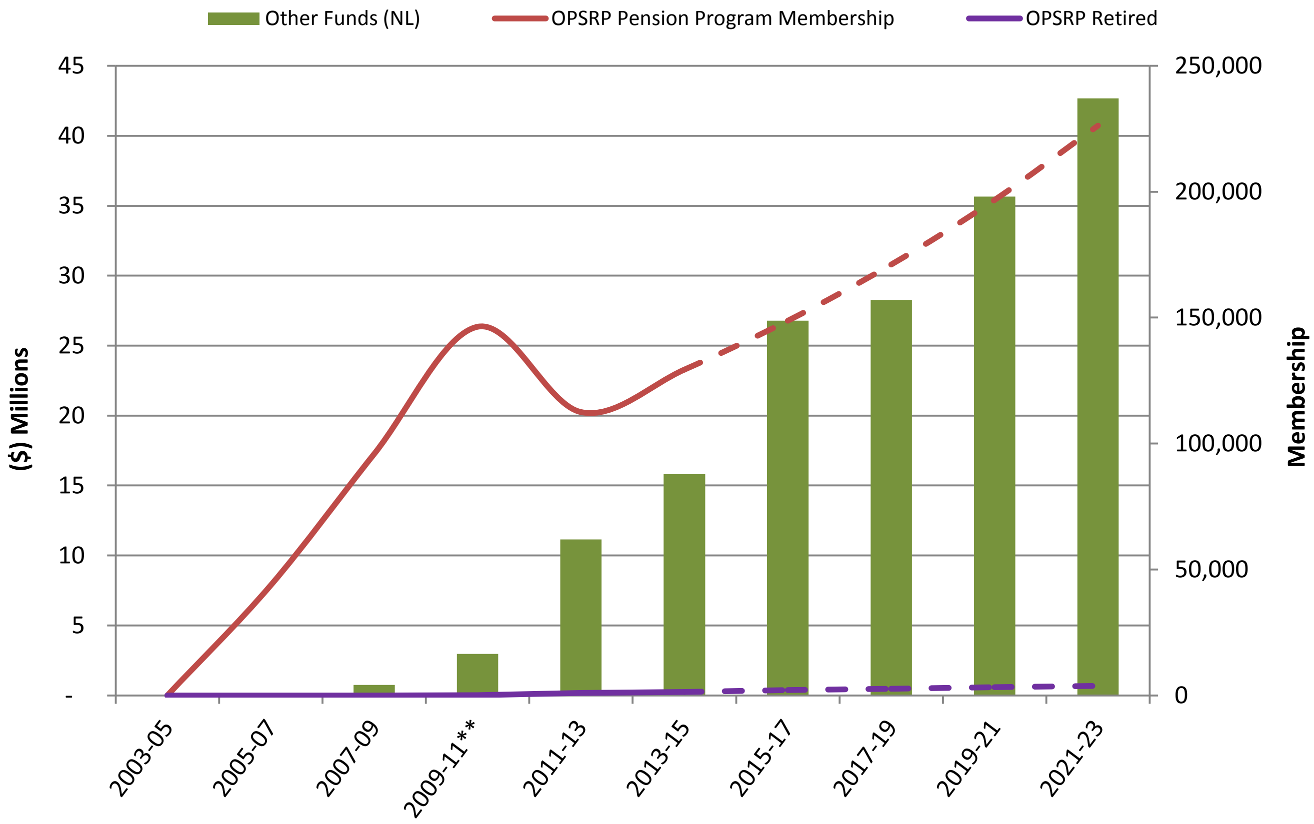
Tier One and Tier Two Program
(Non-Limited Budget) (continued)

<u>Significant Proposed Program Changes from 2013-15</u>

Requested Non-Limited Other Funds represent a decrease of $36,639,138 under the 2013-15 budget of $8,132,200,000 and reflects the Agency's 2015-17 anticipated benefit payment requirements for Tier One and Tier Two benefit recipients. The decrease was due to the 2008 market downturn when members delayed retiring in order to wait out a market correction. PERS experienced a higher than average number of retirements over 2012 and 2013 due to strong market returns. We expect the number of service retirements to resume a more normal pace based on forecasted growth and experience in market returns.

Oregon Public Service Retirement Plan (Non-Limited Budget)

Primary Outcome Area: Improving Government
Secondary Outcome Area: (None)
Program Contact: Steve Rodeman, 503.603.7695



**The decline in membership totals in the 11-13 biennium was due to a correction in reporting. Loss of Membership accounts had not be taken into consideration as this was not possible until 2009. These accounts were removed and membership count adjusted.

Oregon Public Employees Retirement System

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Executive Summary
The Oregon Public Service Retirement Plan (OPSRP) program serves public employees who began public employment after August 28, 2003. OPSRP is a hybrid retirement plan, designed to provide a reduced benefit compared to the Tier One and Tier Two retirement plans. The hybrid plan has two components: the OPSRP Pension Program, funded by employer contributions, and the Individual Account Program (IAP), funded by member contributions.

Performance Achievement: Requested Non-Limited Other Funds support the agency mission to administer the public employee benefit trusts in order to pay the right person the right benefit at the right time. Performance achievement is measured through legislatively mandated Key Performance Measures, quarterly reporting of internal core operating and supporting business process measures, and monthly reporting of member transaction volumes and processing timeliness.

PERS Oregon Public Employees Retirement System

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Description

The two components of OPSRP were established as part of the 2003 PERS reform package to reduce the retirement benefit costs for public employees who began public service after creation of the program (August 29, 2003). All PERS-participating employers were required to enroll any new qualifying employees in the OPSRP Pension and Individual Account Program after that date. PERS administers the benefit trusts associated with these programs on behalf of those participating employers.

The OPSRP Pension program is a defined benefit program that provides a retirement benefit based on a formula: (years of service) x (final average salary) x (statutory multiplier.) The OPSRP program provides a lower benefit than the Tier One and Tier Two programs by reducing the statutory Full Formula multiplier (1.5% for General Service employment, 1.8% for police officers and firefighters) and increasing the normal retirement age (age 65 for General Service employees, age 60 for police officers and firefighters.

PERS Oregon Public Employees Retirement System

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Description (continued)

The types of benefits paid through the OPSRP Pension program include withdrawal, retirement, death, and disability benefits. This program now has over 95,000 non-retired members, more than either the Tier One or Tier Two programs. Costs for the OPSRP Pension program are paid solely through employer contributions and their related investment earnings. All PERS employers participate in a single OPSRP employer pool, so costs are distributed across all employers based on their proportional share of subject salary that they pay the members in the program. Because this program provides a lower level of benefits, its “normal” cost is less than that for members in the Tier One and Tier Two plans, whose formula-based benefits are calculated with higher statutory multipliers.

OPSRP is funded through public employee benefit trusts that are subject to federal and state laws and rules governing tax-qualified government retirement plans. One fundamental provision of those trusts is that the contributions (both from employers and members) and their associated investment earnings can only be used for the exclusive benefit of those members to fund their benefit payments. Consequently, the funds expended through this program can only be used to support the services and benefits provided within the program.

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Justification and Link to 10-Year Plan Outcome

The OPSRP Pension program aligns to the goals and strategies in the Improving Government area of the 10-Year Plan Outcome planning. This program is a major component of the public employee retirement plan, which covers all state agencies, schools and over 90% of eligible local government employees. PERS administers this program for eligible public employees and their employers. This combined administration allows investment in operational efficiencies (such as web-based reporting, customer service and benefit processing) that would not be feasible if individual agencies provided their own benefit plans.

Benefits from the program are delivered through the lowest-cost administrative structure. The fundamental advantages of a multi-employer defined benefit plan are institutional investment of the fund, which enhances returns to members and reduces investment expenses; risk sharing pools, which spread the impact of actuarial experience over a broad base; benefit portability, which allows members to transfer among participating employers without impacting benefit accruals; and unified administration, which enhances professionalism and improves economies of scale. Those advantages allow member and employer contributions into the system to provide the maximum positive economic impact to local economies when retiree benefits are spent in local communities.

Oregon Public Service Retirement Plan
(Non-Limited Budget) (continued)

Program Performance

The table shows how quickly the change in the workforce has populated this lower-cost pension program in a relatively short time. A significant percentage of Oregon's active public employee workforce has been employed under this new retirement plan with lower, more predictable costs. Additionally, the table shows the exponential growth in expenditures and retirements processed related to the OPSRP Pension as part of 2003 PERS reform.

Fiscal Year	Total OPSRP Pension Members	Total Retired OPSRP Pension Members	Total OPSRP Program Expenditures ($)	Total OPSRP Retirements Processed
2007	43,747	0	133,750	16
2008	54,383	0	741,540	50
2009	95,873	4	552,125	108
2010	152,503	30	944,082	192
2011	146,263	115	2,026,084	430
2012	142,954	582	5,121,994	641
2013	111,484	1,003	6,017,289	922

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Enabling Legislation/Program Authorization

The program is governed by the following Oregon Revised Statutes and Administrative Rules:
OPSRP is authorized by ORS 238A.005 thru 238A.250, and 238A.450 thru 238A.475.
Oregon Administrative Rules Chapter 459

The benefits provided under the program are protected by provisions in the U.S. and Oregon Constitutions regarding contracts. Courts have construed these benefits as public contracts with the members. Unlike the Tier One and Tier Two programs, the legislature expressly reserved the right to alter the provisions of the OPSRP program for services performed after the effective date of any such change (ORS 238A.470).

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Funding Streams

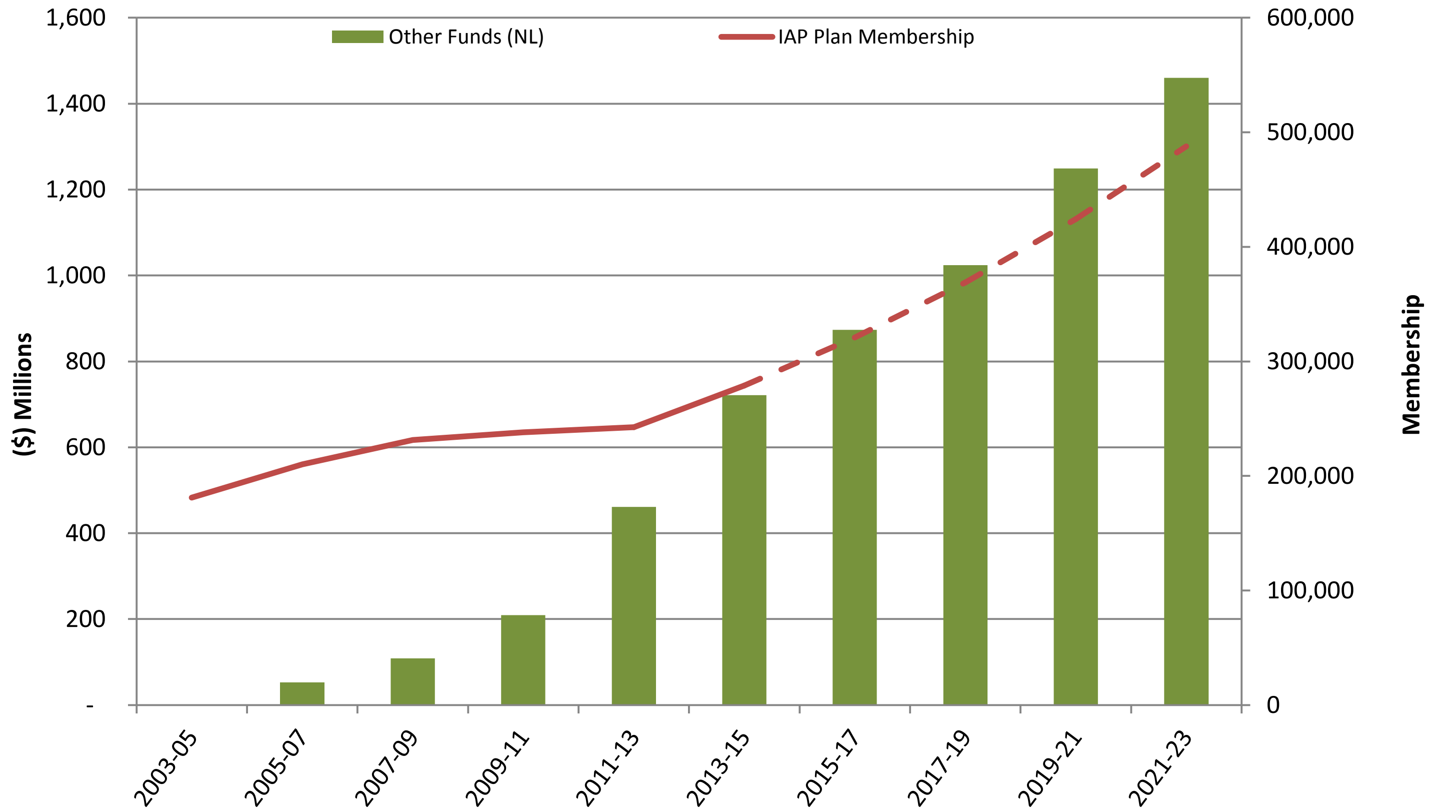
This program is funded entirely from employer contributions and the return on investment of those contributions, which are held in the Public Employee Retirement Fund (PERF). In accordance with ORS 238.660(2), incorporated into the OPSRP Program by ORS 238A.050(2), funds in the PERF can only be expended for the exclusive benefit of the trusts' members. ORS 238.661 (also incorporated by ORS 238A.050(2)) further provides that moneys in the PERF are continuously appropriated to the Public Employees Retirement Board for the purpose of implementing plan requirements. Expenditures under this program are categorized for state budget purposes as Other Funds – Non-limited.

Significant Proposed Program Changes from 2013-15

Requested Non-Limited Other Funds represent an increase of $10,964,864 over the 2013-15 budget of $15,814,000 and reflect the Agency's 2015-17 anticipated benefit payment requirements for OPSRP benefit recipients.

Individual Account Program
(Non-Limited Budget)

Primary Outcome Area:	Improving Government
Secondary Outcome Area:	(None)
Program Contact:	Steve Rodeman, 503.603.7695



Individual Account Program
(Non-Limited Budget) (continued)

Executive Summary
The Individual Account Program (IAP) consists of two components: members in the Oregon Public Service Retirement Plan (OPSRP) program, which serves employees who began their public service after August 28, 2003 and members in the Tier one Tier two retirement plans. The Tier One and Tier Two member contributions made on or after January 1, 2004, have also been deposited in the IAP.

Performance Achievement:
Requested Non-Limited Other Funds support the agency mission to administer the public employee benefit trusts in order to pay the right person the right benefit at the right time. Performance achievement is measured through legislatively mandated Key Performance Measures, quarterly reporting of internal core operating and supporting business process measures, and monthly reporting of member transaction volumes and processing timeliness.

Individual Account Program
(Non-Limited Budget) (continued)

Program Description

The IAP program was established as part of the 2003 PERS reform package to reduce the retirement benefit costs for public employees who began public service after creation of the program (August 29, 2003). All PERS-participating employers were required to enroll any new qualifying employees in the OPSRP Pension and Individual Account Program after that date. PERS administers the benefit trusts associated with these programs on behalf of those participating employers. As of January 1, 2004, all Tier One and Tier Two member contributions have also been directed to the IAP.

The IAP is funded by members contributing six percent of their salary (either through a pre-tax payroll deduction or through an employer “pick-up”). These contributions are invested on members’ behalf as part of the overall PERS fund, and investment earnings or losses are credited to their accounts. Unlike the legacy Tier One member regular accounts, IAP accounts do not have a guaranteed minimum earnings rate.

Individual Account Program
(Non-Limited Budget) (continued)

Program Description (continued)

The IAP is an account-based benefit that is paid in a lump sum upon withdrawal, or in several optional forms of payments at retirement, including a single lump sum or periodic installments at different frequency over various durations. In the 2003 PERS reform legislation, all active Tier One and Tier Two members had their contributions diverted to new IAP accounts, instead of their legacy regular or variable accounts, to restrict the growth in their benefit amounts. Consequently, the IAP now has the largest number of members of all PERS retirement programs. IAP costs are paid wholly out of earnings on member contributions. When earnings are insufficient to pay those costs, member account balances are reduced to recover those costs.

This program is funded through public employee benefit trusts that are subject to federal and state laws and rules governing tax-qualified government retirement plans. One fundamental provision of those trusts is that the contributions (both from employers and members) and their associated investment earnings can only be used for the exclusive benefit of those members to fund their benefit payments. Consequently, the funds expended through this program can only be used to support the services and benefits provided within the program.

Individual Account Program
(Non-Limited Budget) (continued)

Program Justification and Link to 10-Year Plan Outcome

The IAP aligns to the goals and strategies in the Improving Government area of the 10-Year Plan Outcome planning. This program is a major component of the public employee retirement plan, which covers all state agencies, schools and over 90% of eligible local government employees. PERS administers this program for eligible public employees and their employers. This combined administration allows investment in operational efficiencies (such as web-based reporting, customer service and benefit processing) that would not be feasible if individual agencies provided their own benefit plans.

Benefits from the program are delivered through the lowest-cost administrative structure. The fundamental advantages of a multi-employer defined benefit plan are institutional investment of the fund, which enhances returns to members and reduces investment expenses; risk sharing pools, which spread the impact of actuarial experience over a broad base; benefit portability, which allows members to transfer among participating employers without impacting benefit accruals; and unified administration, which enhances professionalism and improves economies of scale. Those advantages allow member and employer contributions into the system to provide the maximum positive economic impact to local economies when retiree benefits are spent in local communities.

Individual Account Program
(Non-Limited Budget) (continued)

Program Performance

The table shows how combining the legacy Tier One and Tier Two members into the IAP program created a large base to support that program's associated administrative costs. Total IAP Membership reflects how this element of member benefits, where the member bears the entire risk of investment losses, is an increasingly significant aspect of the total retirement benefit package. IAP Retirements Processed shows how adding two new benefit programs (OPSRP Pension and IAP) as part of 2003 PERS reform has generated a significant number of additional retirement transactions in a short period of time as all members now are retiring with both a pension benefit and an IAP benefit. The same holds true for withdrawals of members who have worked after the January 1, 2004 effective date of the IAP.

Policy Package 102 will complete the transfer to PERS of all aspects of the Individual Account Program (IAP) administration by January 1, 2017, and eliminates over $2.2 million in annual costs for an outside third-party administrator (TPA).

Fiscal Year	Total IAP Membership	Total Retired IAP Members	Total IAP Expenditures ($)	Total IAP Retirements Processed
2007	210,133	N/A	36,379,230	3,087
2008	218,192	N/A	55,478,104	2,895
2009	231,256	N/A	49,534,423	2,488
2010	236,265	N/A	72,802,216	4,205
2011	238,062	N/A	133,970,603	8,545
2012	240,637	2,641	224,729,644	6,878
2013	240,697	3,308	241,326,511	9,249

Individual Account Program
(Non-Limited Budget) (continued)

Enabling Legislation/Program Authorization

The program is governed by the following Oregon Revised Statutes and Administrative Rules:
IAP is authorized by ORS 238A.300 thru 238A.435
Oregon Administrative Rules Chapter 459

The benefits provided under the program are protected by provisions in the U.S. and Oregon Constitutions regarding contracts. Courts have construed these benefits as public contracts with the members. Unlike the Tier One and Tier Two programs, the legislature expressly reserved the right to alter the provisions of the OPSRP program, including the IAP, for services performed after the effective date of any such change (ORS 238A.470).

PERS Oregon Public Employees Retirement System

Individual Account Program
(Non-Limited Budget) (continued)

Funding Streams

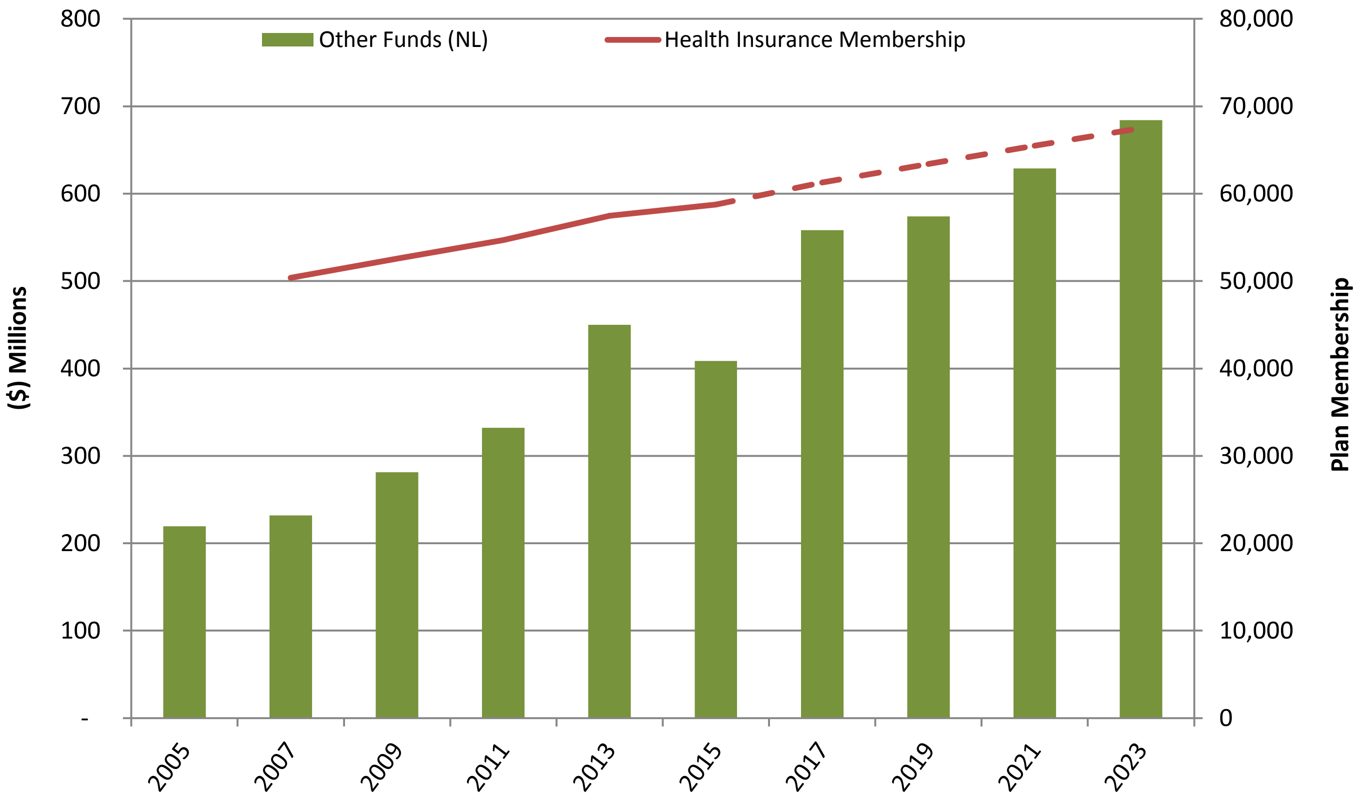
This program is funded entirely from member contributions and the return on investment of those contributions, which are held in the Public Employee Retirement Fund (PERF). In accordance with ORS 238.660(2), incorporated into the OPSRP Program by ORS 238A.050(2), funds in the PERF can only be expended for the exclusive benefit of the trusts' members. ORS 238.661 (also incorporated by ORS 238A.050(2)) further provides that moneys in the PERF are continuously appropriated to the Public Employees Retirement Board for the purpose of implementing plan requirements. Expenditures under this program are categorized for state budget purposes as Other Funds – Non-limited.

Significant Proposed Program Changes from 2013-15

Requested Non-Limited Other Funds represent an increase of $152,288,891 above the 2013-15 budget of $721,200,000 and reflects the Agency's 2015-17 anticipated benefit payments or withdrawals for IAP benefit recipients.

Retirement Health Insurance Programs (Non-Limited Budget)

Primary Outcome Area: Improving Government
Secondary Outcome Area: (None)
Program Contact: Steve Rodeman, 503.603.7695



Retirement Health Insurance Programs (Non-Limited Budget) (continued)

Executive Summary

The PERS Health Insurance Program (PHIP) offers health insurance coverage for all eligible Oregon PERS retirees, their eligible spouses and dependents. The program covers more than 58,000 health plan members. PHIP provides PERS retirees with benefits that provide high quality, comprehensive coverage at the most cost-effective rates possible that will also meet retirees' benefit needs. Core values of the program include maintaining the stability of premiums, coverage, and carriers.

Performance Achievement:

Requested Non-Limited Other Funds support the program mission and purpose to provide comprehensive medical and dental insurance plan options and long-term care insurance to PERS retirees who qualify for the program at the most cost-effective rates possible that will also meet retirees' benefit needs. Performance achievement is measured through the stability of carriers for the benefit of the program and the stability of health care benefits for the benefit of the program.

Retirement Health Insurance Programs
(Non-Limited Budget) (continued)

Program Description

PERS has been a plan sponsor of retiree health plans since the late 1950s. At the time, PERS offered a simple hospital indemnity plan which paid a hospitalized patient about $15 per day. During the next 20 years the benefits were improved and a basic plan was added to cover out-of-hospital expenses. Cost of the plans was fully paid by participants when health plans were added. In the early 1970s, PERS added a Medicare supplement plan.

From its inception until July 1988, PERS plans were fully paid by participants. There was no contribution from PERS. At that time, legislation was implemented to provide a subsidy payment from PERS toward a Medicare supplement for PERS Tier One and Tier Two retirees who retired with eight or more years of service and enrolled in a PERS-sponsored plan. This subsidy is called the Retirement Health Insurance Account (RHIA) and is funded by assessment to all PERS employers. In 1991, the legislature approved a subsidy for Tier One and Tier Two state retirees under age 65. The subsidy, implemented in 1993 is the Retiree Health Insurance Premium Account (RHIPA) and is funded by an assessment to the state of Oregon employers only.

PERS Oregon Public Employees Retirement System

Retirement Health Insurance Programs
(Non-Limited Budget) (continued)

Program Description (continued)

The RHIA subsidy is a $60 contribution that is available to Medicare entitled (enrolled in Medicare Parts A and B) retirees that are receiving either a PERS service or disability retirement allowance and have had either eight or more years of qualifying service time or are receiving a PERS disability retirement allowance computed as if they had eight or more years of service.

The RHIPA subsidy is a contribution available to non-Medicare retirees who retire from a state agency, that are receiving either a PERS service or disability retirement allowance and have had either eight or more years of qualifying service time or is receiving a PERS disability retirement allowance computed as if they had eight or more years of service. A retiree who is eligible for Medicare is no longer eligible for RHIPA and must move to a Medicare plan.

Program Justification and Link to 10-Year Plan Outcome

In spite of inflationary trends and the pressures associated with lower CMS medical reimbursements and higher healthcare reform taxes and fees, for the 2015 plan renewal, PHIP was able to provide PERS retirees with participating carriers and plans that provide balance between costs and benefits. This was achieved through a thoughtful approach, scrutinized and analyzed to provide the least impact possible to members while maintaining program stability and accountability.

Retirement Health Insurance Programs
(Non-Limited Budget) (continued)

<u>Program Performance</u>

PHIP is a voluntary insurance plan where an eligible member pays most if not all of their own premiums for the plan of their choice. In addition to health plan premiums, PERS retirees also cover the cost of program administration; the premium rates that members pay are inclusive of these costs. We are fortunate to partner with insurers that have been able to maximize funding available from the Centers for Medicare and Medicaid Services (CMS) as well as meeting key targets in quality ratings. As has historically been the case, the PHIP insurers also continue to manage the highest need participants to maximize benefits and care delivered while minimizing expenditures.

Stability has been possible as a result of the PERS Board’s approach, maintaining dependable health plan vendors and the long-term relationships that have benefited PHIP enrollees. This is achieved through a thoughtful approach facilitating a balance between cost and benefit.

Fiscal Year	SRHIA Members	RHIA Members	RHIPA Members	Annual Expenditures Total ($)
2008	51,363	38,676	704	139,174,917
2009	52,565	39,528	802	145,969,852
2010	53,256	39,917	911	158,425,042
2011	54,710	40,851	1126	173,378,577
2012	56,113	42,018	1149	216,601,828
2013	57,489	43,061	1251	232,638,530
2014	58,760	44,087	1264	240,446,560

Retirement Health Insurance Programs
(Non-Limited Budget) (continued)

Enabling Legislation/Program Authorization

The program is governed by the following Oregon Revised Statutes and Administrative Rules:
PHIP is authorized by ORS 238.410 to 238.420.

SRHIA – Standard Retiree Health Insurance Account authorized under ORS 238.410
RHIPA – Retiree Health Insurance Premium Account authorized under ORS 238.415
RHIA – Retirement Health Insurance Account authorized under ORS 238.420

Oregon Administrative Rules Chapter 459
The statutorily provided financial benefits provided under the program are protected by provisions in the U.S. and Oregon Constitutions regarding contracts. Courts have construed these financial benefits as public contracts with the members, which can only be altered under very limited circumstances.

ORS 238.410(7) further provides: pursuant to section 401(h) of the Internal Revenue Code, the Standard Retiree Health Insurance Account is established within the Public Employees Retirement Fund, separate and distinct from the General Fund. All payments made by eligible persons for health insurance coverage provided under this section shall be held in the account. Interest earned by the account shall be credited to the account. All moneys in the account are continuously appropriated to the Public Employee Retirement Board and may be used by the Board only to pay the cost of health insurance coverage under this section and to pay the administrative cost incurred by the board under this section. Expenditures under this program are categorized for state budget purposes as Other Funds – Non-limited.

Retirement Health Insurance Programs (Non-Limited Budget) (continued)

Funding Streams

The majority of the revenue for the SRHIA program, about $460 million per year, comes from member paid insurance premiums with additional revenues provided from federal sources like the Centers for Medicare and Medicaid Services (CMS) and resulting investment returns.

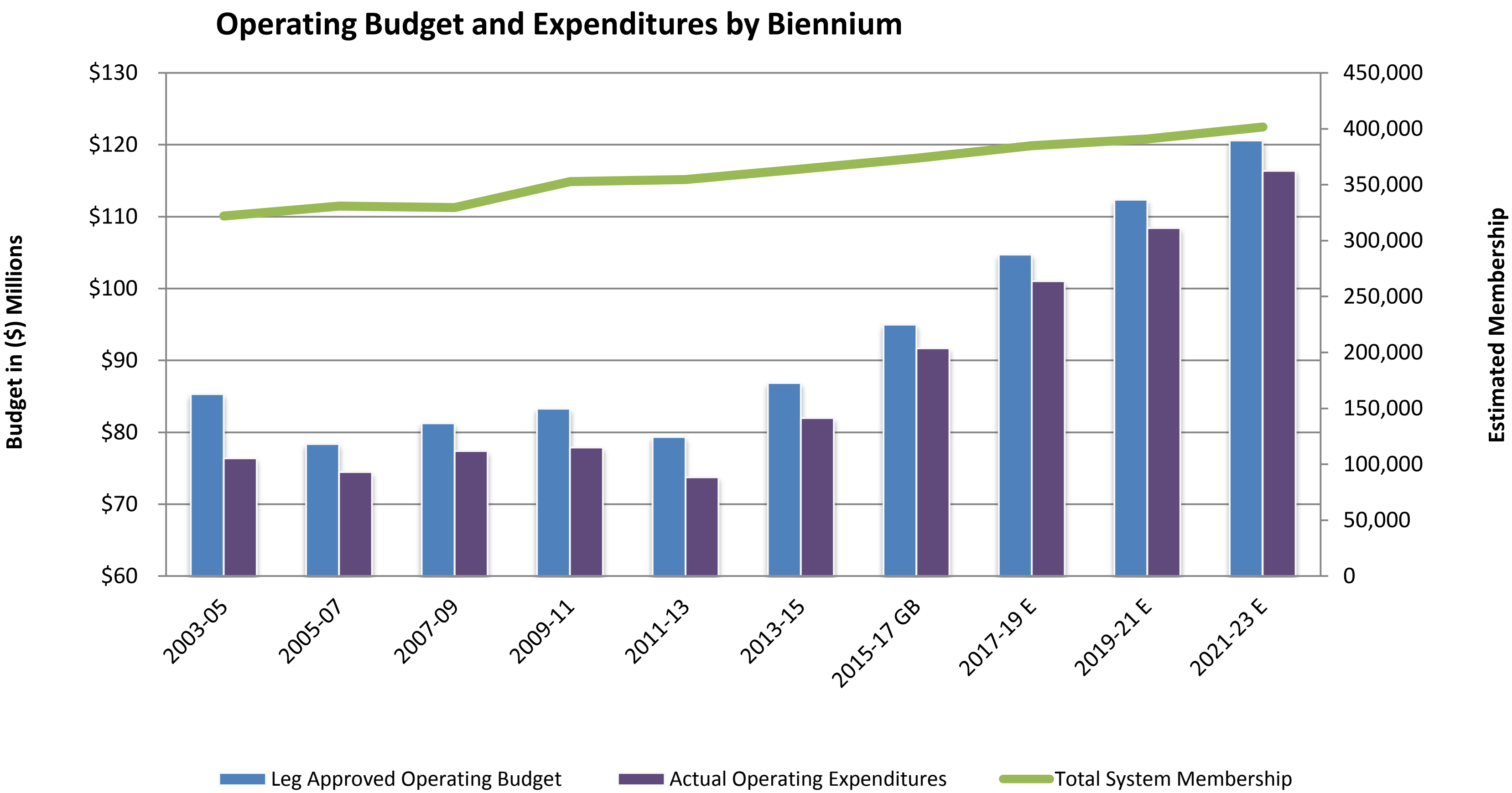
The RHIA and RHIPA programs are funded from employer contributions and the return on investment of those contributions, which are held in the Public Employee Retirement Fund (PERF).

Significant Proposed Program Changes from 2013-15

Requested Non-Limited Other Funds represent an increase of $149,433,445 over the 2013-15 budget of $408,661,000 and reflects the Agency's 2015-17 anticipated premium payment requirements for eligible Tier One, Tier Two and OPSRP benefit recipients.

Operations Program
(Limited Budget)

Primary Outcome Area:	Improving Government
Secondary Outcome Area:	(None)
Program Contact:	Steve Rodeman, 503.603.7695



PERS Oregon Public Employees Retirement System

Operations Program
(Limited Budget) (continued)

Executive Summary

The Operations Program reflects the costs of the Public Employees Retirement System's (PERS) administration of public employee benefit trusts that provide benefit services to employees of over 900 public employers throughout Oregon. Those services include retirement, disability, and death benefits, as well as a deferred compensation program and a retiree health insurance program. PERS also administers the state's obligations under the federal Social Security program. Centralizing these benefit administration services through PERS produces economies of scale that reduce costs, enhance customer service, and support process efficiencies. The Operations Program does not include Debt Service.

Performance Achievement

Requested Non-Limited Other Funds support the Agency's mission to administer public employee benefit trusts that pay the right person the right benefit at the right time. Performance achievement is measured through legislatively mandated Key Performance Measures and quarterly reporting of internal core operating and supporting business process measures.

PERS Oregon Public Employees Retirement System

Operations Program
(Limited Budget) (continued)

Program Description

The Operations Program budget provides the Other Fund financial resources for PERS to administer public employee benefit trusts that provide services for over 900 public employers in Oregon, serving over 350,000 members (Tier One, Tier Two, OPSRP, and IAP) and their beneficiaries or alternate payees. The budget also supports administration of a tax-qualified deferred compensation plan (the Oregon Savings Growth Plan) and several retiree health insurance premium trusts. PERS also fulfills the state's role in administering the federal Social Security program with local government employers.

The budget in the Operations Program reflects only a fraction of the agency's total expenditures. In fact, PERS services the largest "payroll" in the state, processing in excess of $3.6 billion in benefit payments every year (the equivalent of some one-third of the total public employment payroll in Oregon). Using those benefit payments as a measure of the impact PERS has on Oregon's citizens and economy, this agency clearly constitutes one of the major components of the government sector in all of Oregon.

The drive toward efficiency and service improvement has resulted in the budget limitation for this program area remaining stable from $85 million and 401 FTE in 2003-05 to $86.8 million with 364 FTE in 2013-15. The improvements in agency operations were achieved through restructuring processes and leveraging new technologies, such as the agency's recently deployed Oregon Retirement Information On-line Network (ORION). These improvements have allowed PERS to administer the significant new programs added in the 2003 PERS reforms (OPSRP Pension and IAP) and make several structural changes to the agency's programs as directed by the legislature while overall staffing has decreased. Just as importantly, service metrics as measured by the agency's Key Performance Measures have generally improved over this same time even as the agency has integrated new programs over a declining staff.

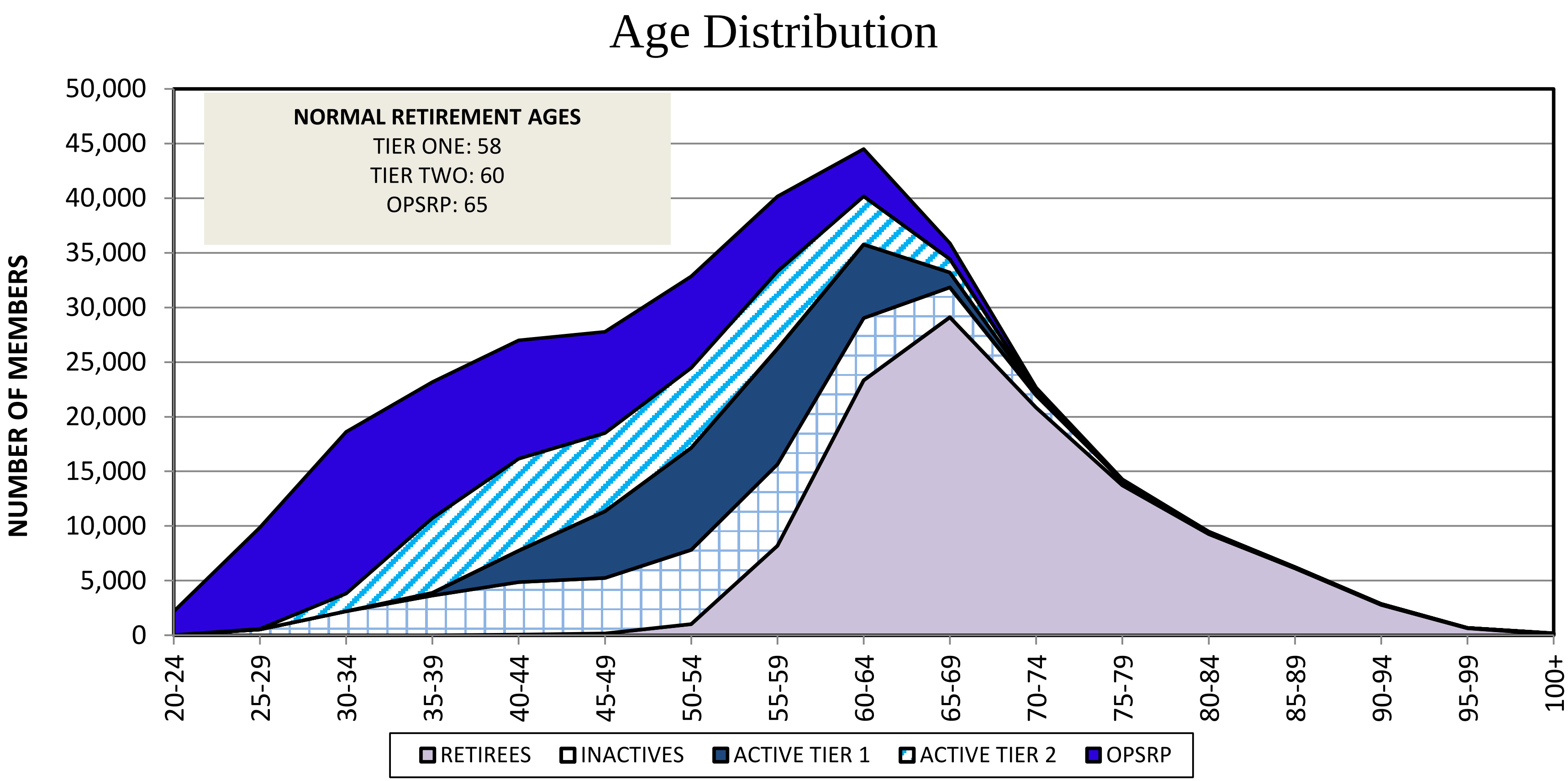
Operations Program
(Limited Budget) (continued)

Program Description (continued)

Demands for the agency's services will continue to grow for the next several biennia as an ever-greater percentage of the public work force passes into retirement age. The agency's approved 2013-15 budget is predicated on processing about 7,500-8,000 retirements per year. That average will increase markedly over the next several biennia. There are already nearly 70,000 PERS members currently eligible to retire, with more members becoming eligible every year. PERS' strategic imperative is to enhance efficiencies and improve processes to handle this rapidly increasing benefit administration workload, rather than increase head-count to maintain service levels.

Supporting the focus on process improvements and service enhancements, however, requires a new paradigm in the agency's structure and management systems. The 2015-17 Governor's Budget is predicated on a fundamental framework that defines the agency's core operating and supporting processes. Through those processes, PERS delivers member services with a highly efficient, automated payment system. That level of process efficiency and technology leveraging often obscures the agency's operational scope. The metrics show that PERS is responsible for timely, accurate, and proficient distribution of 70% of the Other Funds expenditures in Oregon. Easily one in three Oregonians has some connection to a PERS member, reflecting the agency's widespread impact within this state. But the agency's position classifications are still viewed through a prism of the number of FTE in the agency, not by the statewide impact or total value of the services our Operations budget provides. This perception constrains the level of professional skills we are able to attract and retain to further develop our operations and manage our staff as financial services professionals.

Operations Program
(Limited Budget) (continued)



PERS Oregon Public Employees Retirement System

Operations Program
(Limited Budget)

Program Justification and Link to 10-Year Plan Outcomes

The PERS Operations Program strongly aligns to the goals and strategies in the Improving Government area of the 10-Year Plan Outcome areas. Given the vital role that PERS plays in public employee recruitment and retention; the often critical nature of PERS death and disability and retiree health insurance benefits; the valued retirement security that PERS provides to long-term public servants; and the substantial economic impact of PERS benefit payments to communities throughout the state, it could be argued that PERS is indirectly linked to all of the 10-Year Plan Outcome areas.

This program combines the administration of defined benefit retirement plans and other benefit trusts for all state agencies and schools, as well as over 90% of local government employees. PERS administers these programs to provide assistance and service to all these public employers and employees. This combined administration allows investment in operational efficiencies (such as web-based employer reporting, customer service, and benefit processing) that would not be economically feasible for individual agencies.

As a combined benefit plan administrator, these public employers' benefit plans are provided within the lowest-cost framework. The fundamental advantages of a multi-employer defined benefit plan are institutional fund investment, which enhances return and reduces investment expenses; risk sharing pools, which spread actuarial experience costs over a broader base; benefit portability, which allows members to transfer among participating employers without impacting benefit accruals; and unified administration, which allows for enhanced professionalism and economies of scale. Those advantages allow member and employer contributions to provide the maximum positive economic impact to state and local economies when the benefits are spent by recipients in their community.

PERS Oregon Public Employees Retirement System

Operations Program
(Limited Budget) (continued)

Program Performance

Fiscal Year	Total Members Served	Annual Admin. Cost per Member ($)	% Initial Service Retirements Paid in 45 Days	Member Satisfaction Rating – Overall (%)
2007	330,900	140	7	83
2008	329,956	136	33	91
2009	329,611	140	56	93
2010	334,468	121	21	91
2011	352,826	115	40	94
2012	353,998	125	47	83
2013	354,502	127	55	88

Operations Program
(Limited Budget) (continued)

Enabling Legislation/Program Authorization

Enabling legislation for PERS Operations (administrative costs) are:
Oregon Revised Statute (ORS) 237.500; 238.490, & 610; and 243.470.
Oregon Administrative Rules Chapter 459

Notably, the governing authority for the PERS system is vested in a five-member board appointed by the Governor and confirmed by the Senate under ORS 238.630. The PERS Board is charged with employing a director and creating such other positions as it deems necessary for sound and economical administration of the system.

Funding Streams

ORS 238.610 directs that the administrative operations expenses for PERS are paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. PERS annual operations expenses, when measured as a percent of the $70 billion PERS Fund, represent less than 6 basis points (0.06%). Any earnings not used to support agency operations must be otherwise expended solely for the exclusive benefit of PERS members.

Significant Proposed Program Changes from 2013-15

Requested Limited Other Funds reflect an increase of $8,130,272 over the 2013-15 operating budget of $86,851,130 and will enable the Agency to maintain current service delivery levels while enhancing performance measurement in the areas of process improvement and technology.

Appendix 3: Other Funds Ending Balances for the 2013-15 & 2015-17 Biennia

Appendix 3: Other Funds Ending Balances for the 2013-15 & 2015-17 Biennia

Table Of Contents

Oregon Public Employees Retirement System

Other Funds Ending Balances

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Other Fund				Constitutional and/or	2013-15 Ending Balance		2015-17 Ending Balance	
Type	Program Area (SCR)	Treasury Fund #/Name	Category/Description	Statutory reference	In LAB	Revised	In CSL	Revised
Non-limited	010-01-00	Public Employees Retirement Fund. 4091/4791/7651	Trust Fund-Regular/Variable/BEF	ORS 238	60,484,212,993	59,505,006,564	63,308,986,985	65,041,969,394
Non-limited	010-02-01	Retiree Health Insurance Trust Fund 5171	Trust Fund - RHIA	ORS 238.420	383,059,653	374,327,528	474,997,977	472,618,834
Non-limited	010-02-02	Retiree Health Insurance Premium Account Trust Fund 6111	Trust Fund - RHIPA	ORS 238.415	7,492,815	3,399,981	4,069,806	5,814,106
Non-limited	010-02-03	Standard Retiree Health Insurance Account Trust Fund 8921	Trust Fund - SRHIA	ORS 238.410	172,061,712	109,055,683	171,413,493	119,007,449

Other Funds Ending Balances (continued)

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Other Fund				Constitutional and/or	2013-15 Ending Balance		2015-17 Ending Balance	
Type	Program Area (SCR)	Treasury Fund #/Name	Category/Description	Statutory reference	In LAB	Revised	In CSL	Revised
Non-limited	010-03-00	OPSRP Pension Account Trust Fund 1971	Trust Fund OPSRP Pension	ORS 238A	2,135,541,808	1,913,881,683	2,668,660,004	3,010,422,671
Non-limited	010-04-00	OPSRP IAP Account Trust Fund 1961	Trust Fund OPSRP IAP	ORS 238A	7,607,236,536	6,742,830,649	8,226,518,853	8,668,715,127
Limited	500-01-00	Social Security Revolving Account 1088	Operations - Social Security Administration Fund Limited	ORS 237.500	108,631	276,877	218,716	263,102
Limited	500-02-00	Public Employee Benefit Equalization Fund 7652	Operations - BEF Administration Fund 7652 Limited	ORS 238.485-492	118,326	140,010	283,026	422,399

Other Funds Ending Balances (continued)

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Other Fund				Constitutional and/or	2013-15 Ending Balance		2015-17 Ending Balance	
Type	Program Area (SCR)	Treasury Fund #/Name	Category/Description	Statutory reference	In LAB	Revised	In CSL	Revised
Limited	500-03-00	Deferred Compensation Fund 7661	Operations - Deferred Compensation Fund Administration Fund 7661	ORS 243.401-507	1,023,499	1,616,924	2,968,088	3,276,486
Limited	500-04-00	Public Employees Retirement Fund. 4091/4791/7651	Operations - Information Services Division	ORS 238	1,467,909		0	355,076
Limited	500-05-00	Public Employees Retirement Fund. 4091/4791/7651	Operations - Customer Service Division	ORS 238	412,302			1,138,779
Limited	500-07-00	Public Employees Retirement Fund. 4091/4791/7651	Operations - Policy Planning and Communications Division	ORS 238	897,435		55,382	136,822

Other Funds Ending Balances (continued)

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Other Fund Type	Program Area (SCR)	Treasury Fund #/Name	Category/Description	Constitutional and/or Statutory reference	2013-15 Ending Balance		2015-17 Ending Balance	
					In LAB	Revised	In CSL	Revised
					70,793,633,619	68,650,535,899	74,858,172,330	77,324,140,245

PERS Oregon Public Employees Retirement System

Other Funds Ending Balances (continued)

(a) Other Fund Type	(d) Category/Description	(i) Comments
Non-limited	Trust Fund-Regular/Variable/BEF	
Non-limited	Trust Fund - RHIA	
Non-limited	Trust Fund - RHIPA	Co-mingled funds with PERS trust fund. Ending balance change of $1,744,300 reflects investment earnings and expenditures forecast
Non-limited	Trust Fund - SRHIA	Ending balance forecasts are based on member participation rates and forecasted administrative costs. The decrease of 52,406,044 reflects the increased costs of administration.
Non-limited	Trust Fund OPSRP Pension	Plan is funded by employer contributions and investment earnings for employees hired after 08/29/2003. Membership increases and investment earnings are responsible for the increased 341,762,667 forecast in the ending balance.
Non-limited	Trust Fund OPSRP IAP	Plan is funded by employee contributions and investment earnings for employees hired after 08/29/2003. Membership increases and investment earnings are responsible for the 442,196,274 increased forecast in the ending balance.
Limited	Operations - Social Security Administration Fund Limited	Administrative fees are reviewed and adjusted based on expected number of participating employers and projected administrative expenses. The 44,386 increase is based on greater than anticipated cash receipts.
Limited	Operations - BEF Administration Fund 7652 Limited	Greater than anticipated cash receipts and timing of cost allocation adjusted the forecasted ending balance by 139,373.
Limited	Operations - Deferred Compensation Fund Administration Fund 7661	Fees are based on fluctuating member participation. The 308,398 increase is based on current trends.
Limited	Operations - Information Services Division	Except for timing of accrued cost allocation transfers, the balance in the limitation should be zero.
Limited	Operations - Customer Service Division	Except for timing of accrued cost allocation transfers, the balance in the limitation should be zero.
Limited	Operations - Policy Planning and Communications Division	Except for timing of accrued cost allocation transfers, the balance in the limitation should be zero.

Oregon Public Employees Retirement System