



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

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November 17, 2006

TO: Members of the PERS Board
FROM: Paul R. Cleary, Executive Director
SUBJECT: Actuarial Equivalency Factors Update

MEETING DATE	11/17/06
AGENDA ITEM	B.2.e. Act. Equiv.

This is a follow-up on three issues raised during the Board's October 20, 2006 discussion on adoption of revised actuarial equivalency factors (AEF) to be effective January 1, 2007. Those issues are:

1. *Evaluation of Separate Police and Fire Member AEF*

Mike Pittman and James Dalton participated in a conference call with Bill Hallmark, Mercer and PERS staff on October 23, 2006 to further discuss whether separate actuarial factors are required for police and fire members pursuant to ORS 238.608 (see attachment 1). It was first concluded that the Board's earlier study of police and fire life expectancy and subsequent action in April 2005 concurring with the actuary's recommendation to *not* adopt separate actuarial factors fulfilled the Board's statutory obligations under ORS 238.608.

Additional information provided by Mercer (see attachment 2) was also reviewed to determine if it may be prudent to develop separate AEF tables for any class of PERS members under the biennial actuarial factor review provisions of ORS 238.607. As detailed in the Mercer analysis, there is less than one-year difference in longevity between police and fire and general service members when adjusted for group gender blends. This difference is within the range of other accepted group life expectancy variations (e.g., general service vs. school district members). Creating separate AEF tables for police and fire members under the Board's general authority regarding actuarial factors is not recommended at this time.

2. *Look Back Requirements*

During comments on the AEF adoption, Greg Hartman with PERS Coalition raised the issue of whether there was any requirement in federal tax law to compare benefits under a look-back provision upon changing actuarial factors. Staff confirmed with the Board's federal tax counsel, Ice Miller, that a look-back analysis is not required under federal law for the change in actuarial factors in 2007.

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3. Operational Issues

Staff has reviewed the operational issues associated with incorporating the new AEF tables into PERS systems, tools and operations. Staff is working with Mercer to facilitate the changes and will accommodate the January 1, 2007 effective date.

Attachment 1 – ORS 238.607-238.608

Attachment 2 – October 23, 2006 Mercer Email

Oregon Revised Statutes
Actuarial Equivalency Factors
ORS 238.607-238.608

238.607 Actuarial equivalency factor tables. (1) Once every two calendar years, the Public Employees Retirement Board shall adopt actuarial equivalency factor tables for the purpose of computing the payments to be made to members and their beneficiaries, alternate payees and judge members and their spouses and beneficiaries. The tables may be adopted in conjunction with the system evaluation required by ORS 238.605. Tables adopted under this section must use the best actuarial information on mortality available at the time the board adopts the tables, as provided by the actuary engaged by the board. Actuarial equivalency factor tables adopted under this section become effective on January 1 of the calendar year following adoption of the tables by the board. All computations of payments must use the actuarial equivalency factor tables that are in effect on:

- (a) The effective date of retirement for any member, judge member or alternate payee;
 - (b) The date that the first payment is due for any death beneficiary; or
 - (c) The date that the first payment is due for any recalculation of payments that is not attributable to error, including but not limited to recalculations under ORS 238.465 (2).
- (2) The board may not defer or delay implementation of the actuarial equivalency factor tables adopted under this section. [2003 c.68 §2]

Note: Sections 3 and 4, chapter 68, Oregon Laws 2003, provide:

Sec. 3. The Public Employees Retirement Board shall first adopt actuarial equivalency factor tables under section 2 of this 2003 Act [238.607] to become effective January 1, 2005. [2003 c.68 §3]

Sec. 4. (1) Subject to subsections (2) and (3) of this section, for the purpose of computing the retirement allowance of members and alternate payees with effective dates of retirement on or after July 1, 2003, and before January 1, 2005, the Public Employees Retirement Board shall use actuarial equivalency factor tables that are based on the mortality assumptions of the actuary's 2001 experience study as adopted by the board on September 10, 2002.

(2) The retirement allowance of any member or alternate payee who has an effective date of retirement on or after July 1, 2003, shall be the higher of the following amounts:

(a) The amount calculated for the retirement allowance selected by the member under ORS 238.300, 238.305, 238.320 or 238.325 determined as of the member's or alternate payee's effective date of retirement, using all calculations applicable to the member under ORS 238.300 (2) and using actuarial equivalency factor tables in effect on the effective date of retirement for the purpose of all calculations using actuarial equivalency factor tables; or

(b) The amount calculated under subsection (3) of this section.

(3) For each member or alternate payee described in subsection (2) of this section, the board shall establish years of service, an account balance and a final average salary as of June 30, 2003. Years of service for the member as of June 30, 2003, shall include all creditable service of the member determined as of June 30, 2003, including any

retirement credit acquired by the member under ORS 238.105 to 238.175 before July 1, 2003. The account balance shall include all employee contributions made by or on behalf of the member as of June 30, 2003, and earnings on those contributions as of June 30, 2003, credited in the manner provided by board rules in effect on May 9, 2003, governing crediting of earnings upon retirement of a member. The board shall then calculate the retirement allowance selected by the member under ORS 238.300, 238.305, 238.320 or 238.325, using all calculations applicable to the member under ORS 238.300 (2), except that:

(a) The board shall use the actuarial equivalency factor tables in effect on June 30, 2003, for the purpose of all calculations using actuarial equivalency factor tables; and

(b) The board shall use the years of service, account balance and final average salary established by the board under this subsection for the member as of June 30, 2003.

(4) The board need not perform the calculations described in subsections (2) and (3) of this section for a member if the board actuarially determines that one of the calculations described in subsection (2) or (3) of this section necessarily provides the highest amount.

(5) Any monthly payments to be made to a death beneficiary under ORS 238.390, 238.395 or 238.405 for a member who dies on or after May 9, 2003, shall be calculated using the actuarial equivalency factor tables that are in effect on the date that the first payment is due to the death beneficiary.

(6) This section and section 2, chapter 68, Oregon Laws 2003 [238.607], do not apply to the calculation of the retirement allowance and surviving spouse pension of a person who is a judge member on June 30, 2003, and who makes an election under ORS 238.565 (4). The board shall use the actuarial equivalency factor tables in effect on June 30, 2003, for the purpose of calculating the retirement allowance and surviving spouse pension of a person who is a judge member on June 30, 2003, and who makes an election under ORS 238.565 (4), whether that election is made before, on or after June 30, 2003. [2003 c.67 §40; 2003 c.68 §4; 2003 c.625 §16]

238.608 Separate actuarial equivalency factor tables for certain police officers and firefighters.

(1) The Public Employees Retirement Board shall conduct a study of the life expectancy of members of the Public Employees Retirement System in the categories described in subsection (2) of this section. If the board determines that members in the categories described in subsection (2) of this section have a life expectancy that is substantially shorter than the life expectancy of members of the system generally, the board shall adopt and use separate actuarial equivalency factor tables under ORS 238.607 for the purpose of computing the payments to be made to members in the categories described in subsection (2) of this section and to the beneficiaries and alternate payees of those members. Any actuarial equivalency factor tables adopted under this section shall first become effective January 1, 2005.

(2) The provisions of this section apply to members of the system who are defined as firefighters under ORS 238.005 (9) or as police officers under ORS 238.005 (16)(a), (b), (d), (e), (f), (k), (L), (n), (o) or (p). [2003 c.68 §7; 2003 c.625 §18]

**Email from Bill Hallmark, Mercer Human Resource Consulting
October 23, 2006**

Here is some additional information for our call today.

The age 60 life expectancy under each of the mortality tables used in our valuation is as follows:

- Police & Fire males 22.6
- General Service males 23.4
- School District males 24.3
- Police & Fire females 25.7
- General Service females 25.7
- School District females 27.0

The system-wide blended life expectancy is 24.8 and reflects a 50/50 blend between males and females. If we blend Police & Fire on a 50/50 basis, the life expectancy is 23.9. If we blend Police & Fire reflecting their actual division between males and females (85/15), the life expectancy is 22.9.

Bill

Bill Hallmark

Principal

Mercer Human Resource Consulting