

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Item A.1.a.

PERS Board Meeting
September 25, 2009
Tigard, Oregon
MINUTES

Board Members:

James Dalton, Chair
Tom Grimsley, Vice-Chair
Eva Kripalani
Brenda Rocklin

Staff:

Donna Allen	Yvette Elledge	Susan Riswick
Paul Cleary	Brian Harrington	Steve Rodeman
David Crosley	Sue Korn	Susan Sjoldal
Jon DuFrene	Dale Orr	Jason Stanley
Joe DeLillo	Brenda Pearson	Stephanie Vaughn

Others:

Karen Artiaco	Bill Hallmark	Steve Manton	Deborah Tremblay
Ardis Belknop	Greg Hartman	Scott Preppernau	Pat West
Deborah Bond	Steve Haynes	Bill Robertson	Brendalee Wilson
Laurie Byerly	Keith Kutler	Carol Samuels	Denise Yunker
Linda Ely	Matt Larrabee	Lori Sattenspiel	David Wimmer
Janice Essenberg		Ashley Skauvual-Sdad	

Chair James Dalton called the meeting to order at 1:00 P.M. Board Member Mike Pittman was excused with a scheduling conflict.

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF JULY 16, 2009

The Board unanimously approved the minutes from the July 16, 2009 Board meeting.

A.2. DIRECTOR'S REPORT

Director Paul Cleary presented the Board's forward-looking calendar, noting there is one more board meeting for 2009 scheduled on November 20. Key items include adoption of new actuarial equivalency factors for retirements on or after January 1, 2010, Mercer's recommendations on the Equal to or Better Than study process, and an audit committee meeting.

Cleary presented the Oregon Investment Council (OIC) investment report for the July and August 2009 returns. Cleary reported the regular account was up approximately 9% and variable account up approximately 24% through August 31, 2009.

Cleary presented the 2007-09 Budget Report noting the biennium will end with approximately \$3.4 million positive variance. Of this, approximately \$735,000 is due to the RIMS Conversion Project (RCP) expenditures not incurred in this biennium which will, most likely, be carried over to the 2009-11 biennium. Cleary presented the 2009-11 Budget Report noting PERS has started the biennium with a positive variance which is important to the Agency as there are still some state budget uncertainties both in revenue forecasts and potential tax referendums.

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Cleary presented the follow-up report on Employer Reporting, addressing questions the Board had at July 16, 2009 meeting. Cleary noted this is a living document as the *Young Case 2* outstanding invoices decreased since the report was prepared from the \$534,000 reported to \$485,000. Cleary noted smaller employers seem to have the biggest challenges in terms of unsubmitted reports and outstanding invoices. Cleary pointed out that employers owe \$1.2 million compared to the \$1.5 billion a year received in total member contributions, employer contributions, and amortization of side accounts. Mr. Cleary stated that he is pleased with the continued improvement in reporting and the timely remittance of contributions by employers.

Yvette Elledge, CSD Administrator, explained the employer invoicing and collection process noting additional verification time is required around DAS invoices which can result in outstanding invoices. Elledge confirmed for Board member Brenda Rocklin there are very few instances where charges to employers are waived as rules clearly establish what can be waived and there is little leeway.

Cleary presented the 2009 Customer Service Survey results for employers and members who are surveyed annually in August. Cleary reported approximately 4,000 members and retirees responded to the survey, which is about the same as 2008. Cleary stated he was pleased with the results, noting the customer satisfaction results either increased or stayed the same for all service factors. Additional questions were asked regarding the ease of navigation and information provided on the PERS website. Cleary noted members requested on-line access to their demographic data, employment history, and account balances, etc. These requests will be addressed as part of the next major RCP release scheduled for summer of 2010. Cleary noted he recently spoke to member stakeholder groups about having a member focus group help with the final design and roll-out of on-line access.

Cleary noted members would like to receive benefit estimates in less time. Cleary explained how estimate requests are prioritized to help those closest to retirement and that prioritization process will be more clearly communicated to members.

Cleary presented as a walk-in item the Board Best Practices Key Performance Measure Review results. Cleary stated he and the Deputy Director will be working with the Board on the areas noted for improvement.

Cleary said PERS will be facing challenges in maintaining productivity with the mandatory furlough days over the next 22 months and the predicted flu season. Cleary discussed some of the preparations to minimize impacts. Information and a calendar of building closure dates will be posted on the website and included in the *Perspective* newsletter.

CONSENT ITEMS

B.1. NOTICE OF REEMPLOYMENT OF RETIRED MEMBERS RULE

B.2. NOTICE OF WORKERS' COMPENSATION OFFSET RULE (REPEAL)

Deputy Director Steve Rodeman presented Consent Items B.1 and B.2, noting both are notifications that rulemaking has begun to adjust rules to comply with legislation adopted during the 2009 legislative session. No action was required by the Board.

ACTION AND DISCUSSION ITEMS

Chair Dalton on behalf of the Board and PERS staff, recognized William R. Hallmark for his valued advice and service as PERS actuary since 2005 as he will be leaving Mercer.

C.1. 2008 VALUATION REPORT

Matt Larrabee of Mercer introduced Scott Preppernau. Larrabee provided an overview of the valuation process and presented the 2008 Valuation Report. Larrabee noted the employer contribution rates for 2011-13 biennium will be based on the December 31, 2009 valuation. The effect of the market downturn will first be reflected in employer rates beginning July 1, 2011 and in effect through June 30, 2013. Larrabee noted another key finding is that future employer rates will likely increase 6% of payroll system-wide effective July 1, 2011, with a larger increase for those employers with side accounts. Larrabee stated 2009 investment returns are up almost 9% as of August 31, 2009. Larrabee noted the valuation results do not reflect any interpretation of Judge Kantor's rulings in the *Arken* and *Robinson* cases. Larrabee presented a historical summary of employer rates.

Scott Preppernau of Mercer presented the December 31, 2008 Tier One, Tier Two and OPSRP Valuation Report.

10-Year Financial Projections

Larrabee presented 10-year Financial Projection modeling results to provide additional insight to the Board and stakeholders on various system dynamics.

Chair Dalton encouraged the stakeholders to closely examine the information being presented. He noted this exercise is to look forward and see what could happen over the next 10 years under different investment return scenarios and rate-setting policies.

Larrabee noted the report is modeling two employer rate-setting policies: the current policy with the concept of a "double rate collar" if the system drops below 80% funded, and an alternative policy where the rate collar wouldn't be permitted to double. Larrabee noted that all of the modeling scenarios are presented without including any side accounts.

Larrabee noted the modeling was based on the December 31, 2007 valuation. Standard roll-forward techniques were used, which Mercer believes is reasonable as there were no surprises in the valuation this year. Modeling was done on a system-wide basis with projected rates excluding retiree health care and IAP contributions, and based on published investment returns through July 31, 2009. This is a high-level model looking at three possible annualized investments return scenarios over the 10-year period through the end of 2018:

- 4.5% - The trailing 10-year earnings average for the fund
- 8% - The fund's long-term assumed earnings rate
- 10.5% - The trailing 25-year earnings average for the fund

Larrabee noted that under the 8% assumed rate scenario, we end up at the same employer rate of 24% at the end of the 10-year period no matter if a "double" or "single" rate collar was used.

Under the 8% assumed rate scenario with a single collar, at the end of the 10-year period PERS would be 72% funded. The system would “tread water” as far as funded status. Under the 8% assumed rate scenario with the current “double rate collar” policy, the funding status would be 77% at the end of the 10-year period. Under the 10.5% earnings scenario, the funded status would be 93% under the “double” collar and 91% under the “single” collar at the end of 10 years.

Larrabee noted his concern that with an extended 4.5% investment return scenario and no “double rate collar” in place, there is no trend of recovery or stabilization. The plan gets down to 51% funded status in ten years and it would be very difficult to manage contributions and improve the funded status.

Larrabee summarized that any of the scenarios show employer rates of at least 19% over a 10-year period. He stated in all scenario/policy combinations except bad returns of 4.5% and “no double rate collar” in affect, the funded status exhibits either improvement or some stabilization over the projected period. With the current rate collar policy in place, employer contributions base rates will increase by 6% of payroll on a weighted basis for the 2011-13 biennium under all three scenarios. With a “single” rate collar policy, rates would increase for the next three bienniums by the 3% of payroll maximum permitted by the single collar under all three scenarios.

Cleary outlined the option evaluation and stakeholder input process the staff and Board will use over the next few months. He noted this is not unique exercise to PERS as pension and endowment funds across the nation are struggling with how to address 2008’s global and extreme market downturn event. Calendar year 2008 was the worst loss in the history of the fund and more than three times our previous worst event of negative 9%. Cleary noted this is the first time the Board and stakeholders have seen this financial modeling presentation and conversations will continue over the next two Board meetings.

Director Cleary agreed with Board member Rocklin that the system would need extremely good investment years in order to recoup the 2008 losses with just returns. He stated it is evident rates are going up under any reasonable investment return scenario. Cleary said with the combined side accounts “re-set” impact and the “double rate collar,” there would be a significant impact to employer budgets over the 2011-13 budget cycle. Rocklin noted none of the scenarios are good and there is no single decision that can improve the situation. Rocklin said this is a “stark” story and it is important that stakeholders and the public understand the situation.

Board member Grimsley said the presentation was informative and the scenarios were clear. Grimsley noted that any time you project out ten years there are many variables involved and things can change dramatically. Grimsley said he would like to keep an option open of looking at something between the 3% “single collar” and 6% “double collar” that would still moderate rate increases while improving funded status.

Board member Kripalani said this is not a complete surprise considering the 2008 returns, and it shows the tension between predictable and stable rates, protecting funded status, and generational equity objectives. Kripalani noted employer budgets are going to be stressed from the projected rate increases and the real challenge is for the Board to balance all it’s funding objectives in as responsible manner as possible.

Chair Dalton encouraged all stakeholders to take this information back to their constituents. There were no follow-up questions from stakeholders.

C.2. 2009 LEGISLATIVE IMPLEMENTATION PLAN

Susan Riswick, PPLAD Administrator presented the Implementation Plan for six PERS-related bills passed in the 2009 Legislative session. Riswick noted that no additional funds were received by PERS for any bill implementation. Riswick provided a summary of each bill, effective date, results of the legislation, and implementation requirements.

Riswick noted HB 3401 allows employers to use excess amounts in side accounts to fund employer-paid IAP contributions. This ability is predicated on the PERS Board determining that there is a surplus, and that such use would not affect the PERS plan's tax-qualified status under the Internal Revenue Code. PERS will be requesting a ruling from the IRS on this question. Riswick noted PERS is going to make this part of its determination letter process and will include this in the plan update once the IRS initiates the review process.

Stephanie Vaughn, PPLAD manager, explained the IRS determination letter process and the current status. Rocklin noted her concern that the IRS process could take an extended time period and wanted to ensure this was fully communicated to the legislature.

Riswick noted the February 2010 special session will see a limited number of bills introduced. PERS will not be soliciting or submitting any agency legislative concepts for the February 2010 special session.

Chair Dalton adjourned the meeting at 2:55 P.M.

Respectfully submitted,



Paul R. Cleary
Executive Director