UNDERSTANDING PERS BENEFITS AND THE BEST STRATEGIES FOR DIVIDING THEM

Oregon State Bar Family Law Section Annual Conference
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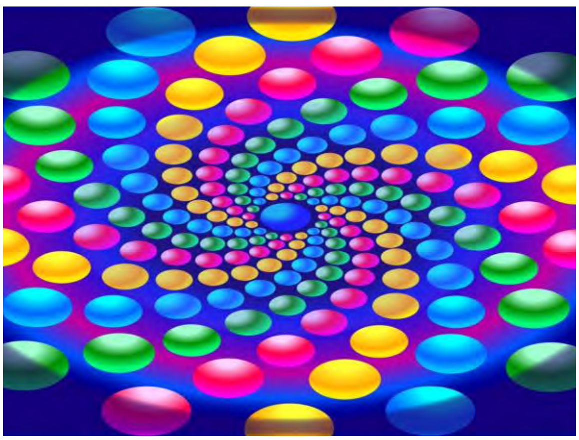
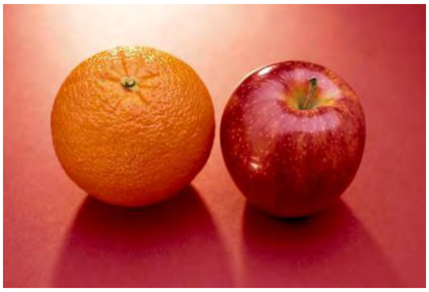


Fundamental Pension Concepts

Defined Contribution Plans



Defined Benefit Plans

Defined Contribution Plans

stack of cash

Defined Benefit Plans

stream of payments

POP QUIZ!

$100,000 in 401(k) vs. $1,000 per month for life
Which is worth more at age 62?

Present Value of $1,000/month pension plan

equals $165,000!

Common Defined Benefits Formulas

- Flat Benefit

One variable
-years of service

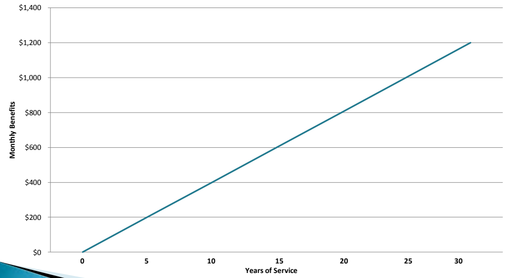
- Unit Benefit

Two variables
-years of service
-final average salary

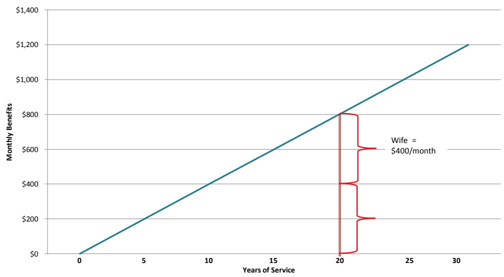
Growth of Flat Benefit Plan

e.g. Teamsters & many union plan – salary is irrelevant

Years of service x \$40/year = monthly retirement benefit



Divorce at 20 years



Separate Interest Actuarially Equivalent Benefit

(1) Assume that wife is 5 years younger than husband.

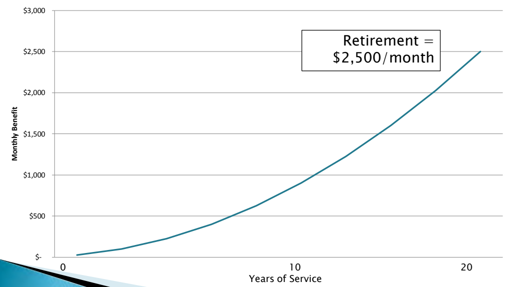
\$400/month for husband's lifetime = \$360/month for wife's lifetime

(2) What if they are the same age?

****PERS will honor separate interest divisions for Tier One, Tier Two and OPSRP.****

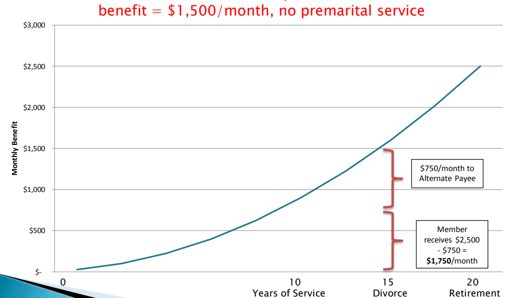
Growth of Unit Benefit Plans

Two increasing variables (years of service & wages) produces a geometric curve



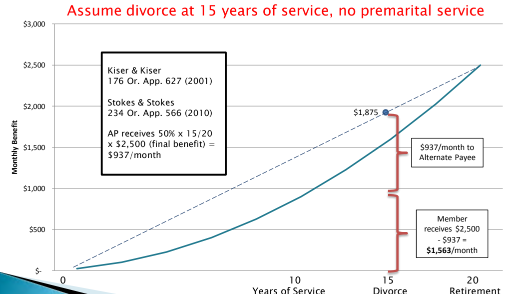
1st Method to Divide: Current Accrued Benefits Method

Assume divorce at 15 years of service, benefit = $1,500/month, no premarital service

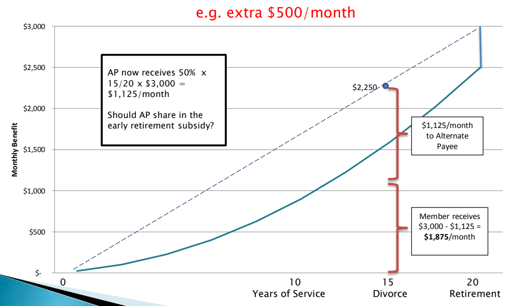


2nd Method to Divide: "Time Rule" aka "Coverture Fraction" The "Straight Line" Method

Assume divorce at 15 years of service, no premarital service



Early Retirement Subsidy
A "Bonus" for a Career Employee



Present Value Calculations are based on Current Benefit & may short change the Alternate Payee

(e.g. $750/month in example)

Tip #1

When representing the alternate payee in a pre-retirement split of a Unit Benefit Plan (e.g. PERS) and if Member is likely to continue to work and gain salary increases, consider that a time share division could be worth a lot more to your client ultimately.

PERS Oregon Public Employees Retirement System

PERS

Every Member has….

Individual Account Program (IAP)

- Defined Contribution Plan
- Started in 2004
- 6% of salary with earnings
- Giant pooled fund managed by ING

PERS

and one of these three Defined Benefit Plans:

- PERS Tier One (hired before 1996)
- PERS Tier Two (hired between 1/1/96 & 8/28/03)
- OPSRP (hired after 8/28/03)

(See PERS: By The Numbers, p. 3)

Dividing the IAP

- Defined contribution plan; cash in the bank
- Must tie division date to December 31 of any year
- Mid year split requires calculation by hand to specify dollar amount
- PERS will allow immediate payment

IAP Hand Calculations to divide at 9/30/13

2012 INDIVIDUAL ACCOUNT PROGRAM (IAP) ACCOUNT INFORMATION

Account balance December 31, 2011	$32,310.89	
Employee contributions in 2012	$3,571.73	* X 9/12 = 2,678.80
2012 earnings rate	14.09%	+ 40,938.42 $43,617.22 as of 9/30/13
Earnings for 2012	$5,055.86	x 50% = $21,808.61
Account balance December 31, 2012	**$40,938.48**	as of 12/31/12

Your 2012 IAP balance*: $40,938.48

*ING – link at PERS website – Member can log in and get actual current year contributions.

OPSRP
(employees hired after 8/28/2003)

- Pure Unit Defined Benefit Plan
- No account balance
- Formula benefit –
  years of service x final average salary x 1.5%
  (1.8% P & F)

e.g. 30 years of service = 45% of salary at age 65
(compares to average PERS 30 year retiree in 2011 = 74% of salary)

- Payable at age 55 or later with actuarial reduction @ 6.5% per year under age 65 (e.g. retirement at 55 years = 35% of the age 65 retirement benefit)
- Not available at all before age 55.

OPSRP Statement

2012 OPSRP PENSION PROGRAM INFORMATION
(January 1, 2012 - December 31, 2012)
2012 retirement credit: 1 year
Cumulative retirement credit: 6 years and 8 months
See reverse side for information regarding vested status.

Employer Name	Police & Fire Y - Yes N - No	Hours Regular	Hours Overtime	Total Subject Salary Regular	Total Subject Salary Overtime
COUNTY	N	1740.50	0.00	$34,686.05	$0.00
Total other employers					
Total for 2012 (all employers)		1740.50	0.00	$34,686.05	$0.00

Pension earned so far:
6 ⅔ years x $34,686 x 1.5% ÷ 12 =
$289/month at age 65

OPSRP (employees hired after 8/28/2003)

Normal way to divide is "Time Rule" – Separate Interest

Tip #2

Consider offsetting OPSRP with IAP

(Rule of thumb: OPSRP value = IAP balance at age 40, less if younger than 40, more if older than 40)

- Requires actuarial value of OPSRP
- Promotes disentanglement, especially for younger members

OPSRP Survivor Issues

(Member dies before retirement)

- Only a 50% benefit is paid
- Other 50% evaporates
- Only a current spouse can receive survivor benefits

What is Member has not remarried?

- Benefits for both Member and AP are lost – the "hole"
- If Member has remarried, AP can share payment for life of second spouse if provided in Court order.

Tip #3

Consider life insurance on Member to replace lost income for Alternate Payee

PERS Formulas –a Hybrid Plan–
(Tier One and Two Members)

Money Match (defined contribution)
Member's PERS account x 2 x annuity factor

Full Formula (defined benefit)
Final average salary x years of service x 1.67%
(2% for police & fire employees)

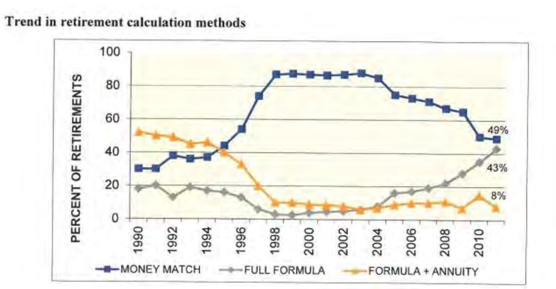
Member receives the best of both. Sometimes an apple  sometimes an orange. 

Key Point

PERS stopped contributing 6% to PERS Tier One and Tier Two accounts <u>after 2003.</u>

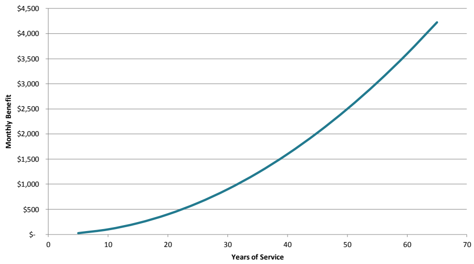
Starting in 2004, those dollars are going into the IAP.

<u>RESULT</u>: Gradual shift to Full Formula



Full Formula

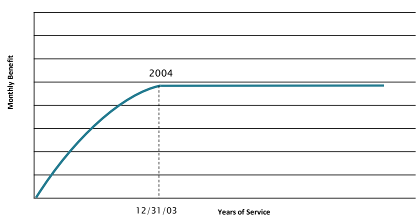
Final average salary x years of service x 1.67%



"Classic" unit benefit curve

Money Match

Member's PERS account x 2 x annuity factor

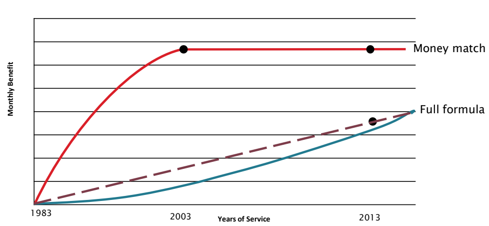


*service after 2003 does not increase money match

Typical "old" Tier One

(hired mid 1980's or earlier)

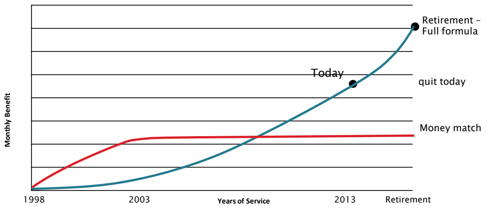
Rule of Thumb – divide up front



Analysis: Full formula will never catch up with Money match

Tier Two

Rule of Thumb – divide on time rule

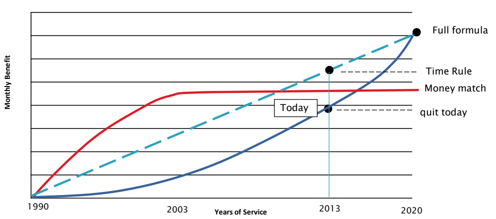


Analysis: Tier Two accounts are too small and are overtaken by full formula almost every time now.

Exception – Member no longer working

"Younger" Tier One

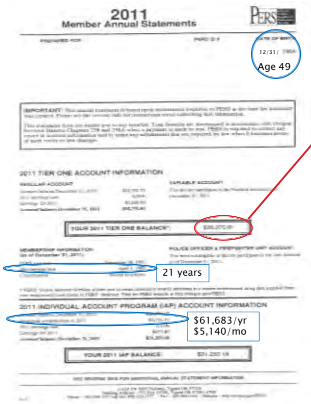
Hired in the mid 1980's to early 1990's –
Toss up as to which division method to use



Analysis: Full Formula has not caught up with the Money Match <u>yet</u> but it will as employee works post-–divorce.

Preferred Methods to Divide

If Money Match will prevail	Divide account balance now "up front"
If Full Formula will prevail	Divide <u>benefit</u> at retirement (or earliest retirement age) based on time rule and give Alternate Payee a <u>separate interest</u>



Money Match
Member's PERS account x 2 x annuity factor

$35,370.81 x 2 x 1.08^{11}*
x $7.60/$1,000**
=$1,254/month

*years from 12/31/2011 to 12/31/2022 (age 58)

** factor at age 58

Full Formula
Final average salary x years of service x 1.67%

$5,140 x 21 x 1.67%
= $1,802/month

Analysis

Member will receive at least $1,802/month at age 58, even if he quits today.
(Present value = $190,000)

AP's share = $901/month plus more if Member continues to work and have salary increases.

But if we divide account up front, AP will get half of $1,254, or only $627/month at retirement. (Present value = $66,000)

So.....

Tip #4

Know which formula the Member is most likely to retire under before you draft your judgment!

To divide account up front when full formula will prevail serves to short change Alternate Payee.

POP QUIZ!

Judgment says "Divide husband's PERS account equally at time of this Judgment."

What does that mean?

I don't know! May be forced into up front division even if not fair to Alternate Payee.

Tip #5

"Account" ≠ "Benefit"
Don't describe PERS "account" – describe as a "benefit."

Key Differences between Tier One and Tier Two

- 8% earnings guarantee for Tier One "regular" account
- Normal retirement age: Tier One – 58
  Tier Two – 60
- Early retirement reduction 8%/year:
  Tier One at age 55 = 76% of age 58 normal retirement benefit
  Tier Two at age 55 = 60% of age 60 normal retirement benefit)

Can only divide payment stream based on election made at retirement

First, know & understand your payment option

- Option 1 – single life
- Option 2 – joint & 100% survivor (≅ approx.15% reduction from Option 1)
- Option 3 – joint & 50% survivor (≅ approx. 8% reduction from Option 1)
- 2A – 3A – "pop up"
- Refund Annuity – single life with account balance minimum
- 15 certain – single life with 15 year minimum

Division – focus on payments

- No "account" to divide

Specify what happens on either death --

- Member dies first –
  - to Alternate Payee?
  - to beneficiary?
- Alternate Payee dies first –
  - to Member?
  - to Alternate Payee's beneficiary?

Two special rules

1. Member can change beneficiary at divorce, if expressly provided in the Court order.
   e.g. Option 2 – can change beneficiary to child, benefit will be recalculated

2. If 2A or 3A, member can "pop up" to Option 1 at divorce unless restricted by Court order.

Either change would deprive the AP of assurance of income for life. Must restrict these changes to protect income of Alternate Payee.

Value of Survivor Benefit as Separate Asset

- Miller case [208 Or. App. 619 (2006)] – says to value spouse's survivor benefit as a separate asset.
- I say that's only half the issue! Also should consider Member's survivor benefit if he survives the Alternate Payee. Could have equal, offsetting value.

Value of Survivor Benefit as Separate Asset

- To be precise, may need to value each contingent survivor benefit separately based on age & probability of who will survive.
- Alternative: Allow each party to control beneficiary of his/her half on the first death. That neutralizes the issue entirely.

"Separate Interest" vs. "Joint & Survivor"

Separate Interest	Joint & Survivor
• Disentanglement more complete. • Each party can elect own benefit for own lifetime. • Alternate payee can commence after Member's earliest retirement date, even if Member keeps working. • Only survivor issues are on pre-retirement death.	• Requires Member to elect survivorship option for Alternate Payee at retirement and then split payments. • Alternate Payee must wait for Member's actual retirement – commence together. • Appropriate when one party has shortened life expectancy.

Dual PERS Members
(Husband and Wife are both Members)

Do we offset?

- Only if in same system and both will retire under the same formula.
- But if so, beneficial to keep payment options open, especially for survivorship with new spouse.

"Invisible" Tier Two Members

Members hired between June 1 and August 28, 2003 are Tier Two with $0 account. Member is not receiving a Tier Two statement.

PERS forms

- Must be attached to Judgment (or Supplemental Judgment)
- Must be incorporated by reference

However . . .

Can we rely on PERS forms alone?

No

(despite instructions on forms)

- Forms don't cover all situations
- Forms don't cover all alternatives
- Forms are subject to interpretation

You still should have specific division language in judgment and specify that the language is to control over forms.

Summary

Recognize that Tier One and Tier Two are worth *many more* times the balance shown on statement.

Money Match – at least three times the account balance

Full Formula – even more

e.g. Tier Two benefit with $8,000 account was worth $150,000

Summary

2

IAP is a defined contribution (DC) plan.

OPSRP is a defined benefit (DB)plan.

Tier Two is usually a defined benefit plan.

Tier One can be either and can change over time if member continues to work.

Know what you are dividing!

If a DC plan, typically divide up front.

If a DB plan, typically divide using the time rule.

Summary

3

If the time rule, usually provide Alternate Payee with a separate interest.

But, if either party has a shortened life expectancy then consider mandated Option 2 or 3 (joint & survivor) with "survivor take all" approach to give the survivor both halves of the benefit after first death.

Summary

4

Get a restraining order if you fear Member will withdraw, die or retire pending the divorce.

Restraining order must reference PERS benefits. A generic restraining order that does not reference PERS is not sufficient.

Summary

5

Don’t try this at home!

Get a QDRO lawyer involved before the judgment. PERS is too complicated and too valuable for most family law lawyers to divide without expert help.

Call your friendly QDRO attorney!

Oregon Public Employees Retirement System (Tier 1 / Tier 2) and Oregon Public Service Retirement Plan (OPSRP)
Actuarial Equivalency Factors Effective January 1, 2012

Table 3a: Non-Refund Annuity Conversion Factors - Option 1 - Healthy Members (Tier 1 / Tier 2 only)
(Amount of Monthly Annuity per $1,000 of Account Balance)

Age	Months of Attained Age at Retirement											
	0	1	2	3	4	5	6	7	8	9	10	11
45	6.84	6.84	6.85	6.85	6.85	6.85	6.86	6.86	6.86	6.86	6.87	6.87
46	6.87	6.87	6.88	6.88	6.88	6.89	6.89	6.89	6.90	6.90	6.90	6.91
47	6.91	6.91	6.92	6.92	6.92	6.93	6.93	6.93	6.94	6.94	6.94	6.95
48	6.95	6.95	6.96	6.96	6.97	6.97	6.98	6.98	6.98	6.99	6.99	7.00
49	7.00	7.00	7.01	7.01	7.01	7.02	7.02	7.02	7.03	7.03	7.03	7.04
50	7.04	7.05	7.05	7.06	7.06	7.07	7.07	7.08	7.08	7.09	7.09	7.10
51	7.10	7.10	7.11	7.11	7.12	7.12	7.13	7.13	7.13	7.14	7.14	7.15
52	7.15	7.16	7.16	7.17	7.17	7.18	7.18	7.19	7.19	7.20	7.20	7.21
53	7.21	7.22	7.22	7.23	7.23	7.24	7.25	7.25	7.26	7.26	7.27	7.27
54	7.28	7.29	7.29	7.30	7.30	7.31	7.32	7.32	7.33	7.33	7.34	7.34
55	7.35	7.36	7.36	7.37	7.38	7.38	7.39	7.40	7.40	7.41	7.42	7.42
56	7.43	7.44	7.44	7.45	7.46	7.46	7.47	7.48	7.48	7.49	7.50	7.50
57	7.51	7.52	7.53	7.53	7.54	7.55	7.56	7.56	7.57	7.58	7.59	7.59
58	7.60	7.61	7.62	7.63	7.63	7.64	7.65	7.66	7.67	7.68	7.68	7.69
59	7.70	7.71	7.72	7.73	7.73	7.74	7.75	7.76	7.77	7.78	7.78	7.79
60	7.80	7.81	7.82	7.83	7.84	7.85	7.86	7.87	7.88	7.89	7.90	7.91
61	7.92	7.93	7.94	7.95	7.96	7.97	7.98	7.99	8.00	8.01	8.02	8.03
62	8.04	8.05	8.06	8.07	8.08	8.09	8.11	8.12	8.13	8.14	8.15	8.16
63	8.17	8.18	8.19	8.21	8.22	8.23	8.24	8.25	8.26	8.28	8.29	8.30
64	8.31	8.32	8.34	8.35	8.36	8.37	8.39	8.40	8.41	8.42	8.44	8.45
65	8.46	8.47	8.49	8.50	8.52	8.53	8.55	8.56	8.57	8.59	8.60	8.62
66	8.63	8.64	8.66	8.67	8.69	8.70	8.72	8.73	8.74	8.76	8.77	8.79
67	8.80	8.82	8.83	8.85	8.86	8.88	8.90	8.91	8.93	8.94	8.96	8.97
68	8.99	9.01	9.03	9.04	9.06	9.08	9.10	9.11	9.13	9.15	9.17	9.18
69	9.20	9.22	9.24	9.26	9.27	9.29	9.31	9.33	9.35	9.37	9.38	9.40
70	9.42	9.44	9.46	9.48	9.50	9.52	9.54	9.56	9.58	9.60	9.62	9.64
71	9.66	9.68	9.70	9.73	9.75	9.77	9.79	9.81	9.83	9.86	9.88	9.90
72	9.92	9.94	9.97	9.99	10.02	10.04	10.07	10.09	10.11	10.14	10.16	10.19
73	10.21	10.24	10.26	10.29	10.31	10.34	10.37	10.39	10.42	10.44	10.47	10.49
74	10.52	10.55	10.58	10.61	10.63	10.66	10.69	10.72	10.75	10.78	10.80	10.83

Mortality Table: Blended Healthy Mortality
Interest Rate: 8%

Understanding and Dividing PERS Benefits in Divorce

Reprinted from April 2013
Family Law Newsletter

Question: Can a PERS Tier Two benefit with an $8,000 account balance be worth $150,000?

Answer: Yes, and often so!

This occurred in a case that I was involved in just last week (as I write this). I will explain why later in this article.

My point is that ***PERS benefits are not what they seem***. Often there is much more than meets the eye. So this article will attempt to dispel some of the mystery of the various PERS benefit systems in a way that will help you better understand PERS benefits and better serve your clients.

Every PERS member has two sets of retirement benefits. First, virtually everyone has an IAP account.[1] Second, every member has a benefit from one of these three systems: Tier One, Tier Two or OPSRP. I will address each below.

IAP Accounts.

IAP stands for the Individual Account Plan under ORS 238A.300 *et. seq.* This is the easiest system to understand. IAP accounts are comprised of the 6% "employee" contributions[2] for all PERS members plus earnings thereon. IAP accounts first started in 2004. The accounts are cash in the bank, so to speak, much like a 401(k) or IRA. However, IAP accounts are not self-directed. Rather, all IAP accounts are invested as a multi-billion dollar pooled fund[3] managed by a Wall Street firm. So the investment earnings are determined, and allocated to individual accounts, only once per year.

For that reason, IAP accounts can be divided on divorce only as of December 31 of any year. If a mid-year division is desired, then the amount to be awarded to an alternate payee must be determined by hand. This is done by determining the alternate payee's share as of the prior December 31, then adding the alternate payee's share of the 6% employee contribution (not earnings) for the portion of the calendar year up to the division date, and then to award that sum as a dollar amount to the alternate payee as of the prior December 31. By using the prior December 31 date as the division date, the alternate payee will automatically receive earnings on his/her share going forward.

OPSRP.

This stands for the "Oregon Public Service Retirement Plan" under ORS Chapter 238A and applies only to PERS members first employed after August 29, 2003. OPSRP is a true defined benefit plan. There is no "account balance" as with Tier One or Tier Two. Rather, it is designed to pay a pension (i.e., a stream of payments) at retirement. It is akin to Social Security – no pot of money, only retirement income for life.

[1] The exceptions are: (1) anyone who has not worked in a PERS covered position since 2003; and (2) those who are retired or terminated and who have already withdrawn or rolled over their IAP elsewhere.
[2] 6% of the member's compensation for the year. For most PERS members, this contribution is made ("picked up") by the employer even though it is called an "employee" contribution on PERS statements.
[3] $3.9 billion at the end of 2011.

In OPSRP the amount of retirement income is strictly a function of the member's years of service and final average salary. The benefit, payable at age 65, is based on this formula: (years of service) x (1.5%) x (final average salary). So an OPSRP member with 20 years of service will receive a pension equal to 30% of his/her final average salary (20 years x 1.5% = 30%). If final average salary is $4,000/month, then the OPSRP pension will be $1,200/month starting at age 65 and continuing for life. The member can choose joint-and-survivor options with a spouse beneficiary for a slight reduction in the monthly benefit.

What is an OPSRP benefit worth? It could be a lot. An actuary is required to determine the value precisely, and that value will vary with interest rates. But it is not uncommon for the value of a member's OPSRP benefit to approximate the balance of the member's IAP account. And an OPSRP is not divisible until the member's earliest retirement age. Therefore, a good approach to divide an OPSRP member's PERS benefits is to have the member keep the OPSRP and let the spouse take the IAP. The OPSRP will have to be valued, and the difference from the IAP balance will have to be adjusted in some manner. But that approach best serves the interests of disentangling the parties.

If an OPSRP is to be divided, then the "time rule" approach, as explained in the *Kiser*[4] and *Stokes*[5] cases, is generally appropriate and most fair. PERS will now re-calibrate the portion assigned to the alternate payee so that it is payable for the alternate payee's lifetime rather than the member's lifetime. That is a good and recent development. This "separate interest" division best accomplishes the interest of disentanglement and in most cases eliminates the need to award or be concerned about survivor benefits.[6]

Tier Two.

Tier Two covers members first hired between January 1, 1996 and August 28, 2003. Their account balances are comprised of their 6% employee contributions up thru 2003, plus earnings. And those earnings are not guaranteed (as are Tier One regular accounts, see below).

But here is an important truth - - for nearly all Tier Two members, the balance of a Tier Two member's account has no bearing on the value of the Tier Two benefit!! Let me say it again – almost always the account balance is irrelevant to value. The actual value is usually much greater.

This is because no new contributions have been added to the Tier Two accounts since 2003 (after which the 6% contributions were diverted to the new IAP accounts). At most, those accounts received six or seven years of contributions. So Tier Two accounts are relatively small. Yet Tier Two members are still earning service credits under the Full Formula, including for service after 2003. Tier Two members will receive retirement income based on the higher result of two calculation methods:

[4] 176 Or.App. 627 (2001)

[5] 234 Or.App. 566 (2010)

[6] One "hole" in OPSRP is that, if after divorce the member dies before retirement and without remarrying, then the benefits of *both* parties are entirely lost. This would not occur if the parties stay married until the member's retirement. So a spouse is in a worse position for having become divorced. This may be fixed by legislation. But in the meantime, life insurance on the member's life in favor of the alternate payee until the member retires may be necessary to cover this contingency.

the Money Match method (based solely on the account balance, doubled) and the Full Formula method (based solely on total years of service and final average salary). And now that nearly 10 years have elapsed since the cut-off of new contributions to Tier Two accounts at the end of 2003, the Full Formula is the prevailing method almost every time. The only exceptions are Tier Two members who left PERS-covered employment before or shortly after 2003.

Tier Two members can retire at age 60 (rather than 65 as under OPSRP) and the formula is 1.67%/year of service (rather than 1.5% under OPSRP). These differences make the Full Formula under Tier Two much more valuable than OPSRP. Therefore, for Tier Two you should have the benefit valued by an actuary every time. You will be surprised.

This is the example first stated above. That member entered Tier Two in 2002, so her account received only two years of contributions before the cutoff in 2003, and her account balance now is only $8,000. Yet she has 10 years of service, a very good salary and is close to retirement. Thus, the present value of the total benefit is $150,000, meaning that husband's 50% marital share is worth $75,000. Husband had no idea! He was about to agree to offset $8,000 of his 401(k) account against her $8,000 Tier Two account. So he was glad to have called me before he agreed to that settlement.

If a Tier Two benefit is to be divided, then generally it is most fair (as with OPSRP) to divide the benefit using the "time rule" approach and to create a "separate interest" for each party at the member's actual retirement (or when elected by the alternate payee at the member's earliest retirement date). Tier Two does not have the same "hole" as does OPSRP[7] with regard to a pre-retirement death. However, until retirement the benefit is still in one piece, which makes it important to require that the member designate the alternate payee as beneficiary of at least 50% of the marital portion. Once benefits commence to the alternate payee, then each party will have his/her own share for his/her own lifetime and the member can be released from the beneficiary restriction.

Tier One.

Tier One members are those who first started PERS-covered employment before 1996. Their retirement benefits differ from Tier Two in two important respects: (1) normal retirement date is age 58 rather than 60, making the benefit significantly more valuable; and (2) earnings in the "regular" account are guaranteed to be at least 8% per year[8]. As a result, the account balances of more senior Tier One members often produce a larger Money Match benefit than the Full Formula. For those members, even though no new contributions have been added since 2003, the 8% annual growth in their accounts is out-stripping the additional service credits under the Full Formula. So it is common, still, to find a Tier One member (typically those who started work before 1990) for whom the Money Match method will produce a retirement benefit larger than the Full Formula method.

As a "rule of thumb," the present value of a Tier One member's benefit is *at least* three to four times the present account balance, at today's interest rates. Here's why: (1) the regular Tier One account continues to grow at 8% per annum between now and retirement, far above current market rate; (2) at retirement the account will be doubled by the Money Match; (3) the account (as doubled) is

[7] See footnote 6.
[8] The 2003 Oregon Legislature tried to take away the 8% earnings guarantee, but in the 2005 *Strunk case* the Oregon Supreme Court held that the 8% guarantee is constitutionally protected.

then converted to a monthly payment based on a PERS table that also has an 8% interest rate built into it[9]; and (4) the monthly benefit will then receive an annual COLA increase of up to 2% per year for life[10]. As a result, the projected monthly benefit usually has a present value of between three and four times the current account balance[11].

The present value of a Tier One benefit can be *more* than four times the account balance if the Full Formula method is the prevailing method to determine the benefit. In other words, the "three to four times account balance" rule of thumb is the "floor" for the present value of a Tier One benefit. If the Full Formula method is projected to provide a higher benefit than the Money Match method, then the present value of the Tier One benefit is proportionately higher.

Whether a Tier One benefit will paid based on the Money Match method or the Full Formula Method should dictate the approach to be taken in dividing the Tier One benefit on divorce. And this takes expert help to determine. If the Full Formula method will prevail, then the "time rule" approach for dividing the benefit is the most balanced approach, just as with Tier Two and OPSRP. But if the Money Match method will prevail, then perhaps it is fair to divide the account "up front" now, so that each party has his/her own account.

But now some strategy: if the Full Formula will prevail in a Tier One case, an astute lawyer representing the member might rather seek to divide the account in half "up front." That will limit the alternate payee to the Money Match calculation and allow the member to retain the member's half of the Money Match benefit *plus all* of the difference in value of the Full Formula over the Money Match. And the reverse is true, too. When the Money Match method will prevail, then to divide the account "up front" means giving away 50% of the *final* benefit. So if the Money Match method will prevail and if the member will continue working after the divorce, then the lawyer for the member might rather apply the "time rule" division in order to allow the member to keep more than 50% of the final benefit.

Conclusion.

Lawyers addressing PERS benefits in divorce should recognize the differences in the nature and values of the several PERS retirement systems and, where appropriate, seek expert help in evaluating and dividing PERS benefits[12].

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[9] At age 58, the conversion rate is $7.60/$1,000. So for example, a $50,000 account, doubled to $100,000, will convert to a monthly payment of $760/month for life. That is far more than current commercial rates.
[10] This COLA adjustment may be limited for higher-paid retirees under legislation now pending in the Legislature.
[11] This week (as I write this) I reviewed an actuarial valuation for a 47-year-old Tier One PERS member whose account balance is $67,000 and the present value is $237,000 (almost four times more). This is not uncommon.
[12] This article assumes a pre-retirement divorce. This article does not address other additional issues that arise in dividing PERS benefits for members who have already retired and commenced benefits.

PERS: By The Numbers

February 2013

Public Employees Retirement System
11410 SW 68th Parkway
Tigard, OR 97223

503-598-7377 or toll free 888-320-7377
http://oregon.gov/PERS

1. *System Demographics (as of December 31, 2011)*

PERS employers: Approximately 900, including all state agencies, universities, and community colleges; all school districts; and almost all cities, counties, and other local government units.

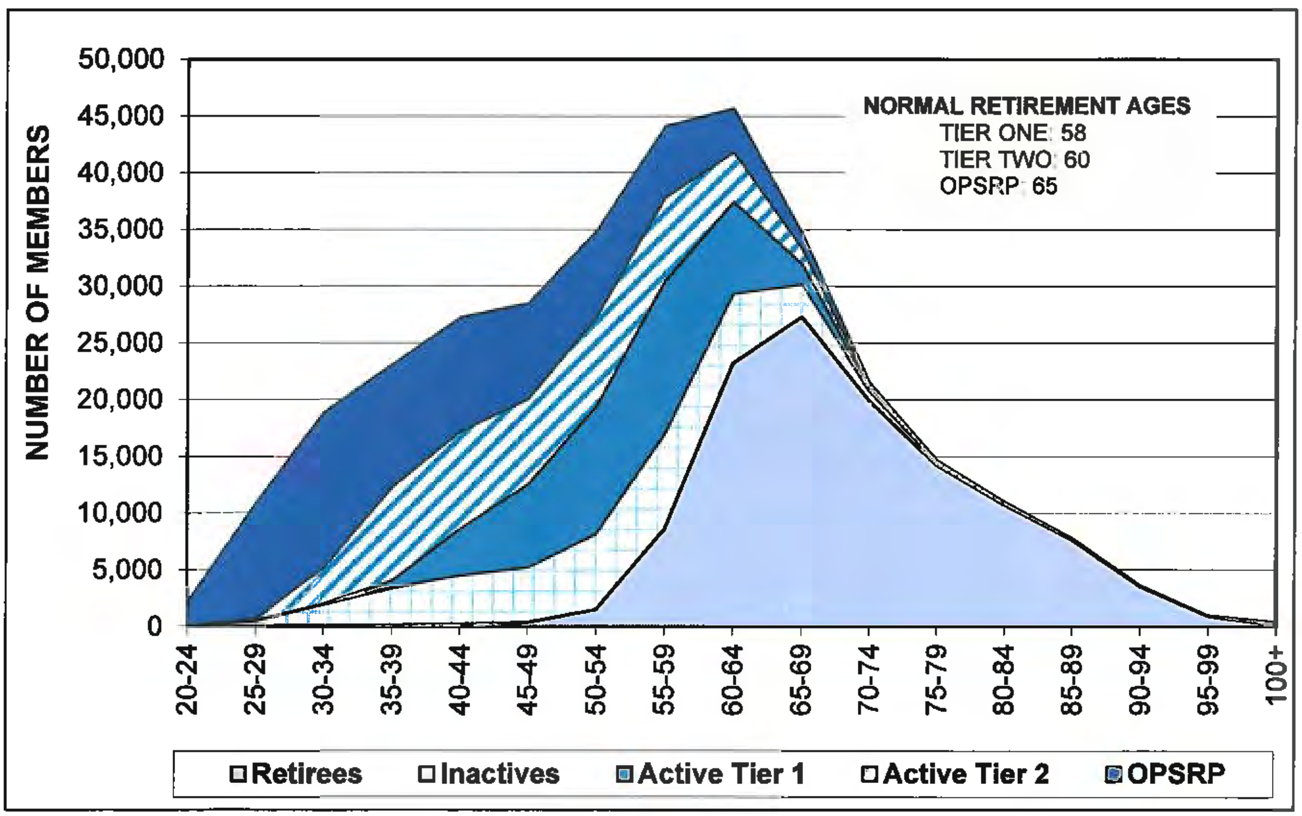
PERS members: approximately 95% of all public employees in Oregon.

Membership by category

		State Govt.	Local Govt.	School Districts	Total
Tier One	Active	12,866	15,368	18,648	46,882
	Inactive	5,222	6,941	8,089	20,252
Tier Two	Active	12,757	16,640	19,733	49,130
	Inactive	3,226	6,049	6,914	16,189
OPSRP	Active	19,751	25,122	30,087	74,960
	Inactive	1,056	1,345	1,665	4,066
Sub-total	Active	45,374	57,130	68,468	**170,972**
	Inactive	9,504	14,335	16,668	**40,507**
Retirees*		28,310	31,383	58,715	**118,408**
TOTAL					**329,887**

* Includes beneficiaries but not members who received total lump-sum retirement or account withdrawal payouts.

Member age distribution (as of December 31, 2011)



2. *System Benefits*

PERS benefit component comparisons

The primary components and differences among the PERS Tier One and Tier Two programs, the Oregon Public Service Retirement Plan (OPSRP) Pension Program, and the Individual Account Program (IAP) are shown below. Tier One covers members hired before January 1, 1996; Tier Two covers members hired between January 1, 1996 and August 28, 2003; and OPSRP covers members hired on or after August 29, 2003. The IAP contains all member contributions (6% of covered salary) made on and after January 1, 2004.

	Tier One	Tier Two	OPSRP Pension	IAP
Normal retirement age	58 (or 30 yrs) P&F = age 55 or 50 w/25 yrs	60 (or 30 yrs) P&F = age 55 or 50 w/25 yrs	65 (58 w/30 yrs) P&F = age 60 or 53 w/25 yrs	55
Early retirement	55 (50 for P&F)	55 (50 for P&F)	55, if vested (50 for P&F)	55
Regular account earnings	Guaranteed assumed rate annually (currently 8%)	No guarantee; market returns	N/A; no member account	No guarantee; market returns
Variable account earnings	Market returns on 100% global equity portfolio	Market returns on 100% global equity portfolio	N/A; no member account	N/A
Retirement calculation methods	Money Match, Full Formula, or Formula + Annuity (if eligible)	Money Match or Full Formula	Formula	Six account distribution options
Full Formula benefit factor	1.67% general; 2.00% P&F	1.67% general; 2.00% P&F	1.50% general; 1.80% P&F	N/A
Formula + Annuity benefit factor	1.00% general; 1.35% P&F	N/A	N/A	N/A
Oregon state income tax remedy	If eligible, higher of 9.89% on service time before Oct. 1, 1991 or 4.0% or less based on total service time	No tax remedy provided	No tax remedy provided	No tax remedy provided
Lump-sum vacation payout				
Included in covered salary (6%)	Yes	Yes	No	Yes for Tier One and Tier Two; no for OPSRP
Included in FAS	Yes	No	No	N/A
Unused sick leave included in FAS	Yes, if the employer participates in the sick leave program	Yes, if the employer participates in the sick leave program	No	N/A
6% "pickup" included in FAS	Yes	Yes	No	N/A
Vesting	Contributions in each of 5 yrs or active member at age 50	Contributions in each of 5 yrs or active member at age 50	5 yrs qualifying service or normal retirement age	Immediate
2% maximum annual COLA after retirement	Can retire through July 1 and receive maximum COLA for the year	Can retire through July 1 and receive maximum COLA for the year	COLA prorated in year of retirement based on retirement date	N/A; no COLA provided

P&F = police and firefighters; FAS = final average salary; COLA = cost-of-living adjustment; N/A = not applicable

Note: PERS uses three methods to calculate Tier One and Tier Two retirement benefits: Full Formula, Formula + Annuity (for members who made contributions before August 21, 1981), and Money Match. PERS uses the method (for which a member is eligible) that produces the highest benefit amount. OPSRP Pension benefits are based only on a formula method.

2. *System Benefits (continued)*

Summary of findings from PERS' Replacement Ratio Study for 2011
The Replacement Ratio Study population of 75,179 retirements was drawn from 92,456 retirements from January 1990 through December 2011, and covers retired members who selected comparable monthly benefit options. The techniques used in the 2011 PERS Replacement Ratio Study are consistent with the techniques used in previous studies.

The calculations do not include any federal Social Security benefits that a retiree may be eligible for based on the retiree's work history. The calculations also do not include the effects of the post-retirement *Strunk/Eugene* benefit adjustments, which generally impacted retirements occurring in 2000-2004 and would reduce the reported replacement ratios for those periods by several percentage points.

Average age at retirement: 59 years old
Average years of service at retirement: 22 years of service

Average monthly retirement benefit
- For all retirees from 1990-2011, the average monthly retirement benefit at time of retirement was $2,160 per month, or about $25,920 annually
- For those retirees in the most recent year (2011), the average monthly retirement benefit was $2,672 per month, or about $32,064 annually

Average public employee salaries at retirement
- For all retirees from 1990-2011, the final salary at retirement averaged $45,425 annually
- For 2011 retirees, the final salary at retirement averaged $62,108 annually

Average salary replacement ratio (see chart on following page)
- For all retirees from 1990-2011, the average annual retirement benefit equaled 54% of final salary at the time of retirement
- For 2011 retirees, the average annual retirement benefit equaled 50% of final salary
- For all retirees from 1990-2011, there were 7.6% who received annual benefits more than 100% of final salary. The average years of service for this group was 31 years
- For 2011 retirees, there were 5.3% who received annual benefits more than 100% of final salary. The average years of service for this group was 34 years

For members who retire with 30 years of service (see chart on following page)
- From 1990-2011, the average retirement benefit for 30-year members equaled 80% of final salary and the average monthly benefit was $3,468 per month
- The average retirement benefit for 30-year members peaked at 100% of final salary in 2000 and their average monthly benefit was $4,200 per month
- For 2011 only, the average retirement benefit for 30-year members equaled 74% of final salary and the average monthly benefit was $3,990 per month
- 11.49% of retirees from 1990-2011 had 30 years of service
- 10.35% of retirees in 2011 had 30 years of service

2. *System Benefits (continued)*

Summary of findings from PERS' Replacement Ratio Study for 2011 *(continued)*

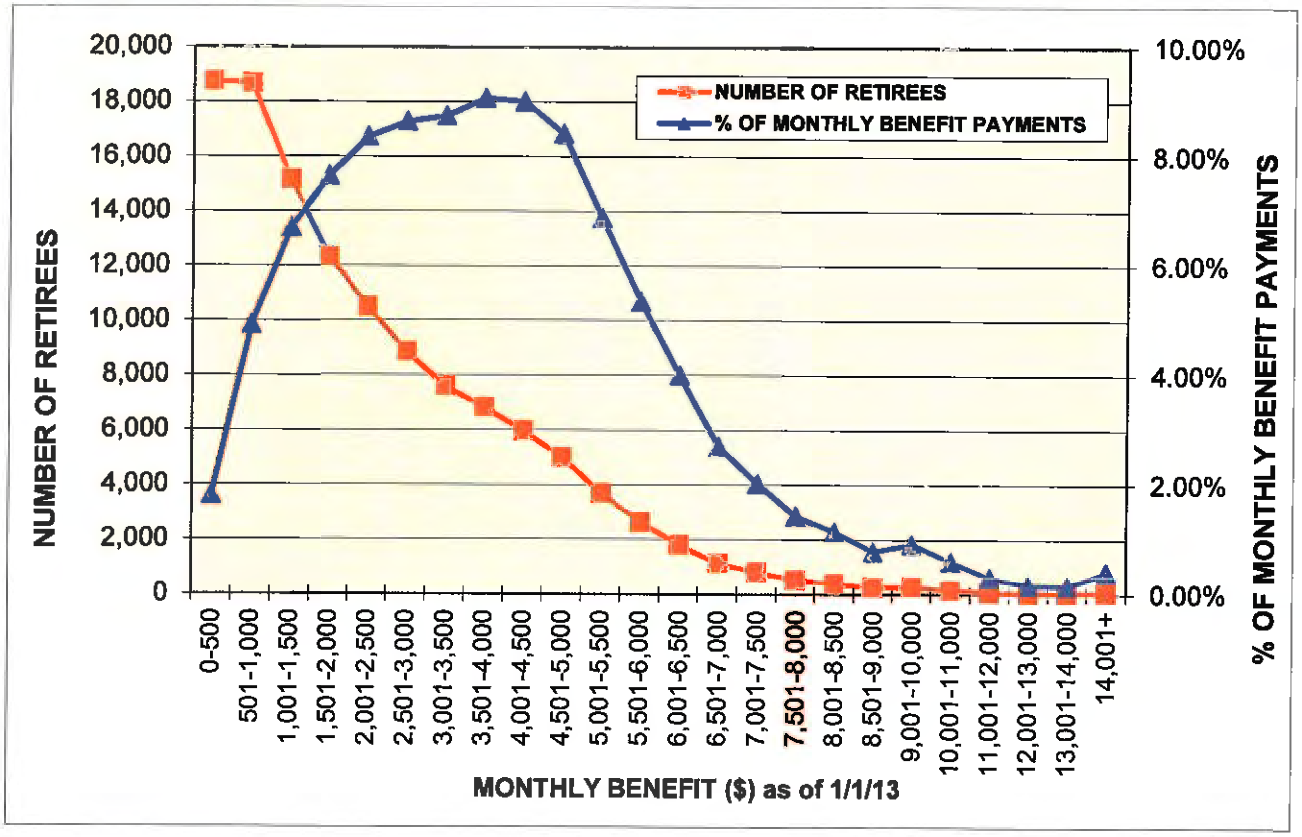
Average salary replacement ratio based on final salary (FS) at retirement

	Retirees with 30 Years of Service		All Retirees in Study		
Calendar Year	**# of Retirees in Study***	**Average Replacement Ratio Based on FS**	**# of Retirees in Study***	**Average Replacement Ratio Based on FS**	**% of Retirees Receiving >100% of FS**
1990	146	61%	1,866	44%	.0%
1991	217	61%	2,377	45%	.1%
1992	205	67%	2,432	48%	.5%
1993	289	66%	2,744	48%	.5%
1994	302	67%	3,298	49%	.3%
1995	304	66%	2,827	47%	1.0%
1996	281	70%	2,477	49%	1.4%
1997	295	83%	3,107	57%	7.5%
1998	465	89%	4,567	65%	12.0%
1999	548	93%	4,644	65%	14.0%
2000	273	100%	2,112	63%	15.8%
2001	391	99%	3,146	66%	16.5%
2002	670	96%	4,605	68%	17.4%
2003	942	93%	7,631	66%	14.4%
2004	471	84%	3,259	55%	5.5%
2005	393	84%	2,548	51%	4.4%
2006	347	83%	2,952	50%	4.3%
2007	372	84%	3,226	51%	4.9%
2008	417	80%	3,480	52%	5.0%
2009	432	77%	3,881	53%	6.2%
2010	414	75%	3,516	48%	4.3%
2011	464	74%	4,484	50%	5.3%
Total/Avg	**8,639**	**80%**	**75,179**	**54%**	**6.4%**

* Includes monthly benefit payments for members retiring from active service within the preceding 12 months. Benefits related to inactive, lump sum, judge and legislator retirements are excluded.

2. *System Benefits (continued)*

Monthly benefit payment amounts as of January 1, 2013
Based on 121,276 monthly benefit payments (includes alternate payees and survivors; excludes lump sum and unit payments) totaling $281.2 million for the month.



Monthly Benefit ($)	Number of Retirees	Percent of Benefits Paid	Monthly Benefit ($)	Number of Retirees	Percent of Benefits Paid
0 - 500	18,734	15.45%	3,001 - 3,500	7,571	6.24%
501 - 1,000	18,645	15.37%	3,501 - 4,000	6,799	5.61%
1,001 - 1,500	15,135	12.48%	4,001 - 4,500	5,955	4.91%
1,501 - 2,000	12,328	10.17%	4,501 - 5,000	4,986	4.11%
2,001 - 2,500	10,478	8.64%	5,001 - 5,500	3,686	3.04%
2,501 - 3,000	8,846	7.29%	5,501 - 6,000	2,617	2.16%
Subtotal	**84,166**		**Subtotal**	**31,614**	
% of total	**69.40%**	**38.04%**	**% of total**	**26.07%**	**47.41%**

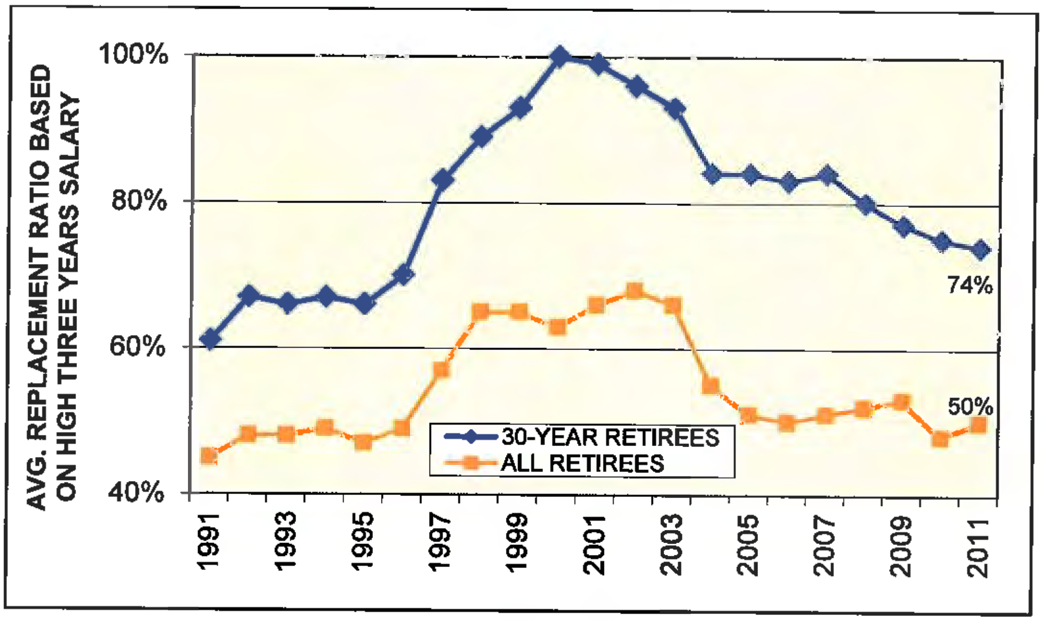
Monthly Benefit ($)	Number of Retirees	Percent of Benefits Paid	Monthly Benefit ($)	Number of Retirees	Percent of Benefits Paid
6,001 - 6,500	1,801	1.49%	9,001 - 10,000	270	0.22%
6,501 - 7,000	1,125	0.93%	10,001 - 11,000	160	0.13%
7,001 - 7,500	786	0.65%	11,001 - 12,000	73	0.06%
7,501 - 8,000	515	0.42%	12,001 - 13,000	36	0.03%
8,001 - 8,500	387	0.32%	13,001 - 14,000	30	0.02%
8,501 - 9,000	249	0.21%	14,001 and up	64	0.05%
Subtotal	**4,863**		**Subtotal**	**633**	
% of total	**4.01%**	**12.04%**	**% of total**	**0.52%**	**2.50%**

- Average annual benefit: $27,820
- Median annual benefit: $21,825

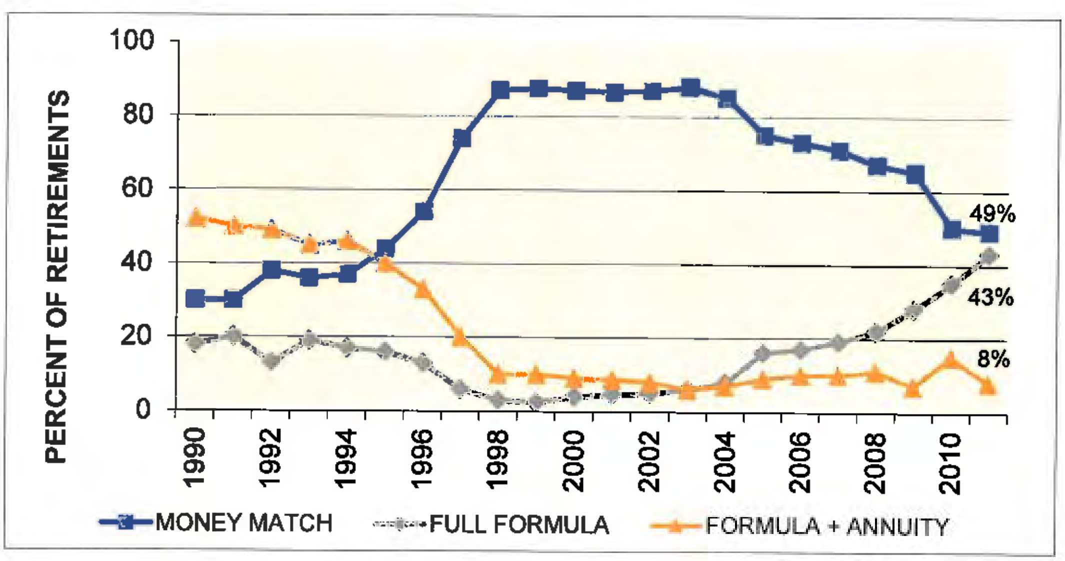
Retirees with Hours Reported Working in a PERS-Covered Position in 2012

Hours	Employer Group			
	State	Local Govt	K-12	Total
< 200	388	1,202	2,913	4,503
200 - 400	270	559	1,290	2,119
401 - 600	211	408	830	1,449
601 - 800	169	317	552	1,038
801 - 1039	294	467	576	1,337
> 1039	141	266	203	610
Total	**1,473**	**3,219**	**6,364**	**11,056**

Replacement ratio trends



Trend in retirement calculation methods



2. *System Benefits (continued)*

Average IAP account balances and distributions to retirees, withdrawals, and deceased

Year	Total IAP Account Balance After Earnings Crediting ($M)	# of Members	Average IAP Account Balance ($)	# of Distributions to Retirees, Withdrawals, and Deceased
2004	423.4	162,119	2,611	2
2005	928.9	181,055	5,130	4,131
2006	1,396.8	197,491	7,072	6,557
2007	2,120.5	210,133	10,091	6,705
2008	1,851.2	218,192	8,484	8,624
2009	2,742.8	231,256	11,847	7,727
2010	3,536.9	236,265	14,970	8,695
2011	3,939.7	238,062	16,549	11,479

Tier One/Tier Two benefit payment options selected in calendar year 2011

Option (definitions below)	Quantity	Percent
1	2,026	26.12
Refund Annuity	633	8.16
15-Year Certain	400	5.16
2	1,353	17.44
2A	1,474	19.00
3	226	2.91
3A	466	6.00
Lump Sum 1	166	2.14
Lump Sum 2	83	1.07
Lump Sum 2A	87	1.12
Lump Sum 3	3	0.00
Lump Sum 3A	29	0.40
Total Lump Sum	688	8.90
AS refund	122	1.57
Total	**7,756**	**100%**

Option 1 (non-refund): This option is paid for the member's lifetime. No benefit of any kind is paid to anyone after the member dies.

Refund Annuity Option: This option is paid for the member's lifetime. When the member dies, the designated beneficiary receives a lump-sum refund of any amount remaining in the member's account, if any.

15-Year Certain Option: This option is paid for the member's lifetime. If the member dies before receiving 180 monthly payments (15 years), the beneficiary is entitled to receive the remainder of the 180 monthly payments. Once the member has received at least 180 payments, no benefit is payable to the beneficiary.

Survivorship Options (Option 2, Option 2A, Option 3, and Option 3A): Under any of the survivorship options, the member may name only one beneficiary who must be a living person. The monthly benefit payment is paid to the member until his/her death, and then paid to the beneficiary if then living (under Options 2 and 2A, at the same base amount as the member; under Option 3 and 3A, at ½ the base amount of the member).

Lump-Sum Options (Lump-Sum Option 1, Lump-Sum Option 2, Lump-Sum Option 2A, Lump-Sum Option 3, and Lump-Sum Option 3A): These options provide a lump-sum payment of the member's account balance plus a lifetime monthly pension from the employer's contributions. The lifetime monthly pension options are the same as those for the non-refund and survivorship options described above.

Total Lump-Sum: The balance of the member's account and a matching amount funded by employers' contributions are paid out in total; there is no ongoing monthly benefit.

AS refund is a one-time payment based on an actuarial calculation if the Option 1 benefit is less than $200 per month.

2. *System Benefits (continued)*

PERS Retiree Health Insurance Program information

The Oregon PERS Health Insurance Program offers optional medical, dental, and long-term care insurance plans to eligible Tier One/Tier Two retirees, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retirees. While primarily serving our Medicare-eligible (age 65 and over) population, the PERS Health Insurance Program also offers insurance coverage options for those not yet Medicare eligible.

Active members, their spouses, and dependents are not eligible for the PERS Health Insurance Program. Oregon Revised Statute 243.303 requires Oregon public employers to make their active employee group insurance programs available to their retirees and dependents that are not yet Medicare eligible (the rate must be no more than the blended rate for the entire group). Public employers may charge pre-Medicare retirees the entire monthly premium (as state government does) or may choose to subsidize the insurance premium for eligible retirees (as provided in varying degrees by individual school districts and local governments).

There are two statutory trust funds administered by PERS as part of the Health Insurance Program that provide premium subsidies for eligible Tier One and Tier Two retirees or surviving spouses. These trusts are known as the Retirement Health Insurance Account (RHIA), serving all qualifying PERS retirees, and the Retiree Health Insurance Premium Account (RHIPA), serving qualifying state government retirees. Both trusts are funded from employer contributions on an actuarial basis.

<u>Program Enrollment (as of September 2012)</u>

Medical Plans (four plans offered)	**Totals**	**Medicare**	**Non-Medicare**
Covered lives	55,922	53,268	2,654
Retirees (or surviving spouses)	45,158	43,572	1,586
Spouses/Dependents	10,764	9,696	1,068
Average age of enrolled retirees	74	75	57
Dental Plans (two plans offered)	32,893		
Long Term Care Plan	1,968		

<u>Statutory Health Insurance Premium Subsidies</u>

Retirees receiving RHIA (trust fund held by PERS*)	41,817
Retirees receiving RHIPA (trust fund held by PERS**)	1,165
RHIA monthly payment total	$2,509,020
RHIPA monthly payment total	$ 331,211

Employer rates (effective July 1, 2011):

RHIA: 0.59%

RHIPA (state only): 0.16%

Unfunded actuarial liabilities (as of December 31, 2011): $222 million (RHIA); $30 million (RHIPA)

* The RHIA subsidy is $60 per month for Medicare eligible retirees.

** The RHIPA subsidy is for state government pre-Medicare retirees only and varies depending on the employee's years of state service, from $158.08 (8 years) to $316.16 (30+ years) per month for Plan Year 2012.

3. *System Funding Level and Status*

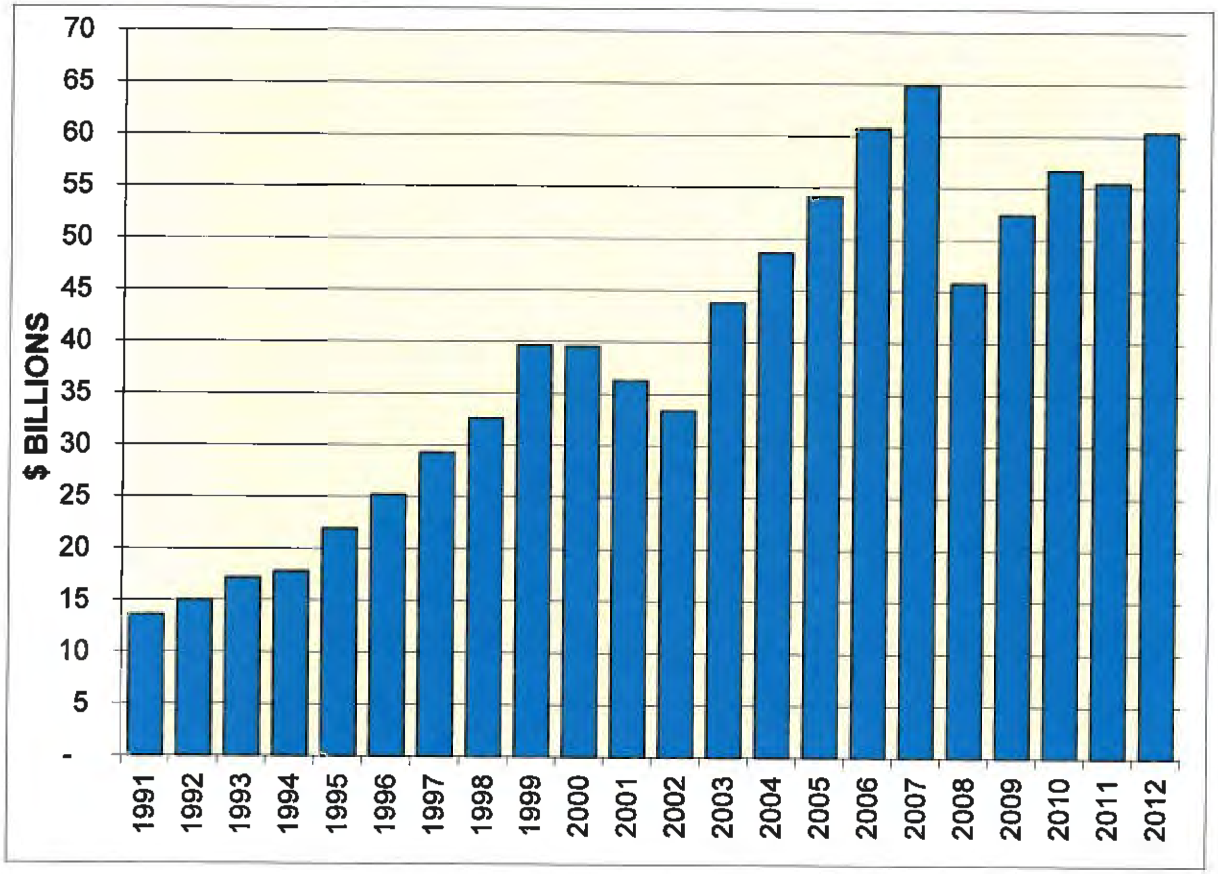
Funded status as of December 31, 2012

The Oregon Public Employees Retirement Fund (OPERF) is invested under oversight and direction of the Oregon Investment Council with staff support from the Investment Division of Oregon State Treasury.

As of December 31, 2012, PERS was estimated to be 87% funded (including employer side accounts). Side accounts hold deposits of pension obligation bond proceeds and other advance lump-sum payments.

As of December 31, 2012, the unfunded actuarial liability (UAL) (when including side accounts) was estimated to be $8.5 billion. The UAL fluctuates based on various factors including investment returns, Board reserving policies, statutory plan design changes, and litigation outcomes.

PERS fund value (calendar year ending December 31, 2012)



3. *System Funding Level and Status (continued)*

Unfunded actuarial liability history and funded ratio for Tier One/Tier Two*

Valuation** Date	With Side Accounts*** (starting in 2002)		Without Side Accounts	
	UAL ($M)	Funded Ratio (%)	UAL ($M)	Funded Ratio (%)
1993	1,449	92.4	1,449	92.4
1995	2,291	90.2	2,291	90.2
1997	2,556	91.9	2,556	91.9
1999	943	97.7	943	97.7
2000	1,545	96.4	1,545	96.4
2001	-2,031	105.4	-2,031	105.4
2002	3,204	92.0	3,983	89.9
2003	1,751	96.1	6,227	86.0
2004	2,122	95.6	7,678	84.0
2005	-1,751	104.0	4,919	91.0
2006	-5,019	109.7	2,229	95.7
2007	-6,120	111.5	1,538	97.1
2008	10,998	80.0	16,133	70.4
2009	8,108	86.0	13,598	76.0
2010****	7,700	87.0	13,300	78.0
2011	11,030	82.0	16,255	73.0
2012 (estimated)	8,500	87.0	14,000	78.0

* Includes RHIA/RHIPA.

** 2000-2003 UALs were calculated using actuarial value of assets (AVA) based on year-to-year changes in asset values smoothed over four-year periods. All other UALs since 1997 were calculated using an AVA based on fair market value.

*** The official PERS valuation UAL and funded ratio are based on accepted actuarial standards and methodologies. These methodologies are subject to review and revision every two years. A negative UAL amount represents a surplus.

**** 2010 and after includes the OPSRP Pension Program.

Unfunded actuarial liability history and funded ratio for the OPSRP Pension Program*

Valuation Date	UAL ($M)	Funded Ratio (%)
2005	-1.2	102.3
2006	-36.0	131.3
2007	-72.1	135.5
2008	66.3	80.3
2009	90.0	83.2

* The official PERS valuation UAL and funded ratio are based on accepted actuarial standards and methodologies. These methodologies are subject to review and revision every two years. A negative UAL amount represents a surplus. The OPSRP Pension Program UAL for 2010 and after is reported with Tier One/Tier Two.

3. *System Funding Level and Status (continued)*

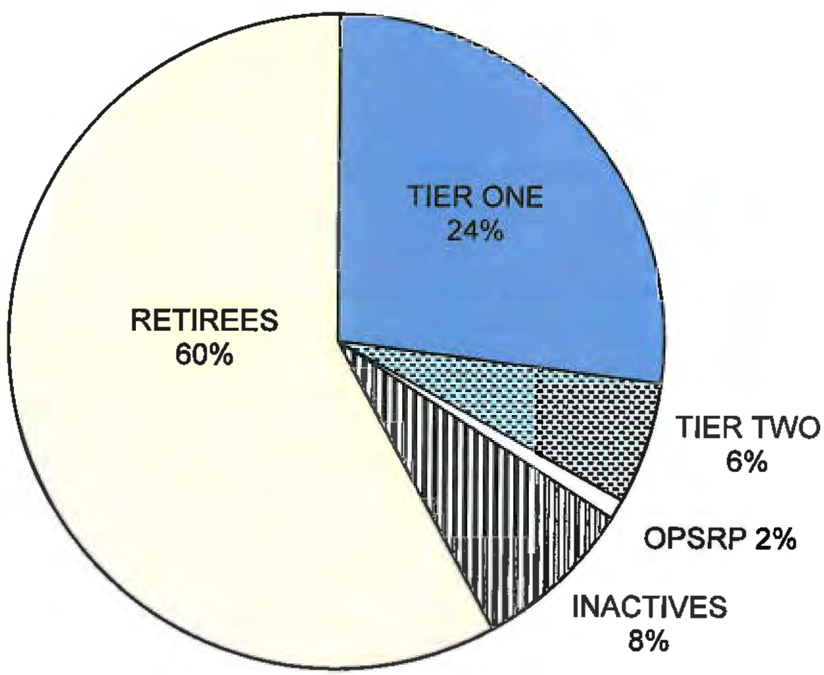
Actuarial accrued liabilities

Before PERS reform in 2003, PERS' liabilities were growing by about 12% annually. Reform reduced liability growth to an expected average of 3 to 4% annually over the long-term, which is close to the system's annual inflation rate assumption of 2.75%. Liabilities grew about 3.4% per year in 2010 and 2011.

Approximately 68% of PERS' total accrued liability is for members who are no longer working in PERS-covered employment (retirees and inactives). As a result, approximately 40% of an employer's contribution rate is associated with these groups.

Tier One active members represent 24% of the accrued liabilities. More than 56% of Tier One active member liability is for members over age 55, and approximately 80% of the Tier One active member liability is for members over age 50. Because the average retirement age is 59, a large shift in liabilities between active and retired is anticipated in the near future.

More than 67,000 PERS members are currently eligible to retire based on age or service.



4. *System Revenue*

Member and employer contributions and investment income for calendar years

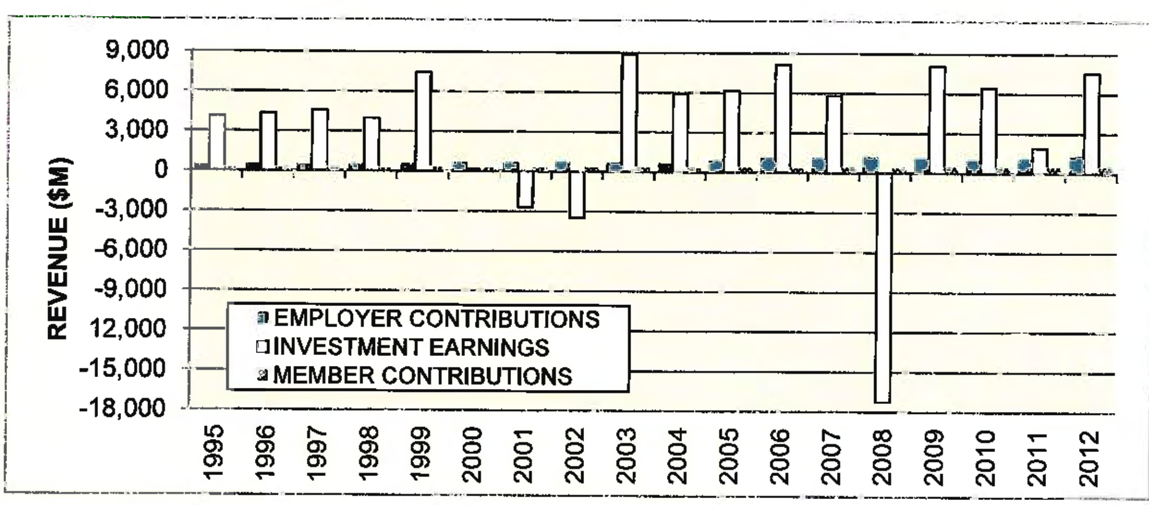
Year	Member Contributions ($M)	Employer Contributions ($M)	Amortization of Employer Side Accounts ($M)*	Total Employer ($M)	Net Investment & Other Income ($M)
1995	287	427	N/A	427	4,110
1996	296	463	N/A	463	4,358
1997	291	473	N/A	473	4,582
1998	318	488	N/A	488	3,978
1999	347	577	N/A	577	7,463
2000	359	654	N/A	654	143
2001	385	689	N/A	689	-2,708
2002	398	725	8	733	-3,460
2003	405	582	97	679	8,866
2004	371**	408	278	686	5,933
2005	434	504	357	861	6,179
2006	456	637	474	1,111	8,163
2007	468	633	466	1,099	5,808
2008	484	669	541	1,210	-17,235
2009	515	561	540	1,101	8,053
2010	502	435	558	993	6,444
2011	510	627	509	1,136	1,935
2012***	533	923	443	1,366	7,573

* PERS' methodology to track amortization of side accounts began in 2002. Side accounts hold deposits of pension obligation bond proceeds and other lump-sum payments.

** Since January 1, 2004, member contributions have been placed in the Individual Account Program (IAP), instead of the legacy Tier One/Tier Two member accounts.

*** 2012 is estimated.

- Member contributions equal 6% of covered salary and now go to the IAP. The member contribution is currently assumed and paid or "picked up" by 53% of all employers for more than 50% of their employees. This totals approximately 70% of all employees.
- PERS Reform legislation led to a reduction in employer rates beginning in 2003. Also, starting in 2002, employers were given the option to deposit lump-sum payments into side accounts, reducing subsequent "new dollar" annual contributions for the employers that make such deposits.
- Employer contribution amounts are from the calendar year-end records. Data for calendar year 2004 and beyond includes employer contributions for OPSRP Pension Program, Tier One/Tier Two, and post- retirement health care (RHIA, RHIPA).



4. *System Revenue (continued)*

Regular account earnings available for crediting and actual distributions to Tier One and Tier Two member regular, variable, and Individual Account Program (IAP) accounts

Year	Earnings: Regular Account (%)	Distributions (%): Tier One	Tier Two	Variable Account	IAP
1970	5.09	5.09		7.47	
1971	6.27	6.27		9.47	
1972	7.46	7.46		13.87	
1973	0.00	0.00		-16.39	
1974	0.00	5.50		-18.16	
1975	9.19	7.50		18.94	
1976	10.38	7.75		18.58	
1977	4.79	7.00		-2.62	
1978	7.37	7.00		7.03	
1979	12.32	11.09		20.40	
1980	16.92	13.00		29.94	
1981	4.37	7.50		-2.25	
1982	15.31	11.50		22.39	
1983	18.37	13.00		23.12	
1984	7.33	7.50		4.00	
1985	21.38	15.00		27.99	
1986	22.70	18.37		18.98	
1987	9.00	7.50		4.54	
1988	16.86	13.50		18.62	
1989	19.74	14.50		26.84	
1990	-1.53	8.00		-7.84	
1991	22.45	15.00		35.05	
1992	6.94	8.00		10.54	
1993	15.04	12.00		12.65	
1994	2.16	8.00		-1.76	
1995	20.78	12.50		29.92	
1996	24.42	21.00	24.42	21.06	
1997	20.42	18.70	20.42	28.87	
1998	15.43	14.10	13.63	21.45	
1999	24.89	11.33*	21.97	28.83	
2000	0.63	8.00	0.54	-3.24	
2001	-7.17	8.00	-6.66	-11.19	
2002	-8.93	8.00	-8.93	-21.51	
2003	23.79	8.00	22.00	34.68	
2004	13.80	8.00	13.27	13.00	12.7
2005	13.04	8.00	18.31**	8.29	12.8
2006	15.57	8.00	15.45	15.61	14.9
2007	10.22	7.97***	9.47	1.75	9.46
2008	-27.18	8.00	-27.18	-43.71	-
2009	19.12	8.00	19.12	35.57	18.4
2010	12.44	8.00	12.44	15.17	12.1
2011	2.21	8.00	2.21	-7.80	2.15
2012****	14.29	8.00	14.75	18.34	14.1

* The PERS Board originally credited these accounts at 20%. That allocation was later reduced to 11.33% to comply with subsequent court decisions and legislative findings.

** Tier Two regular account crediting, based solely on earnings, was 13.74%. However, the PERS Board deployed $9 million from the Capital Preservation Reserve and $17 million from the Contingency Reserve that was added to Tier Two earnings. As a result, Tier Two was credited with a total of 18.31%. The dollars allocated from the reserves were originally withheld from Tier Two regular account earnings.

*** After crediting Tier One accounts with the assumed rate of 8%, member attorney fees in the *Strunk* case were deducted by order of the Oregon Supreme Court resulting in an effective crediting rate of 7.97%.

**** 2012 data is preliminary.

- In determining plan funding, the actuary must project future earnings of the PERS Fund. This is called the "assumed earnings rate." Historical assumed earnings rates are:
  - 5.0% for 1971 - 1974
  - 7.0% for 1975 - 1978
  - 7.5% for 1979 – 1988
  - 8.0% for 1989 – current.

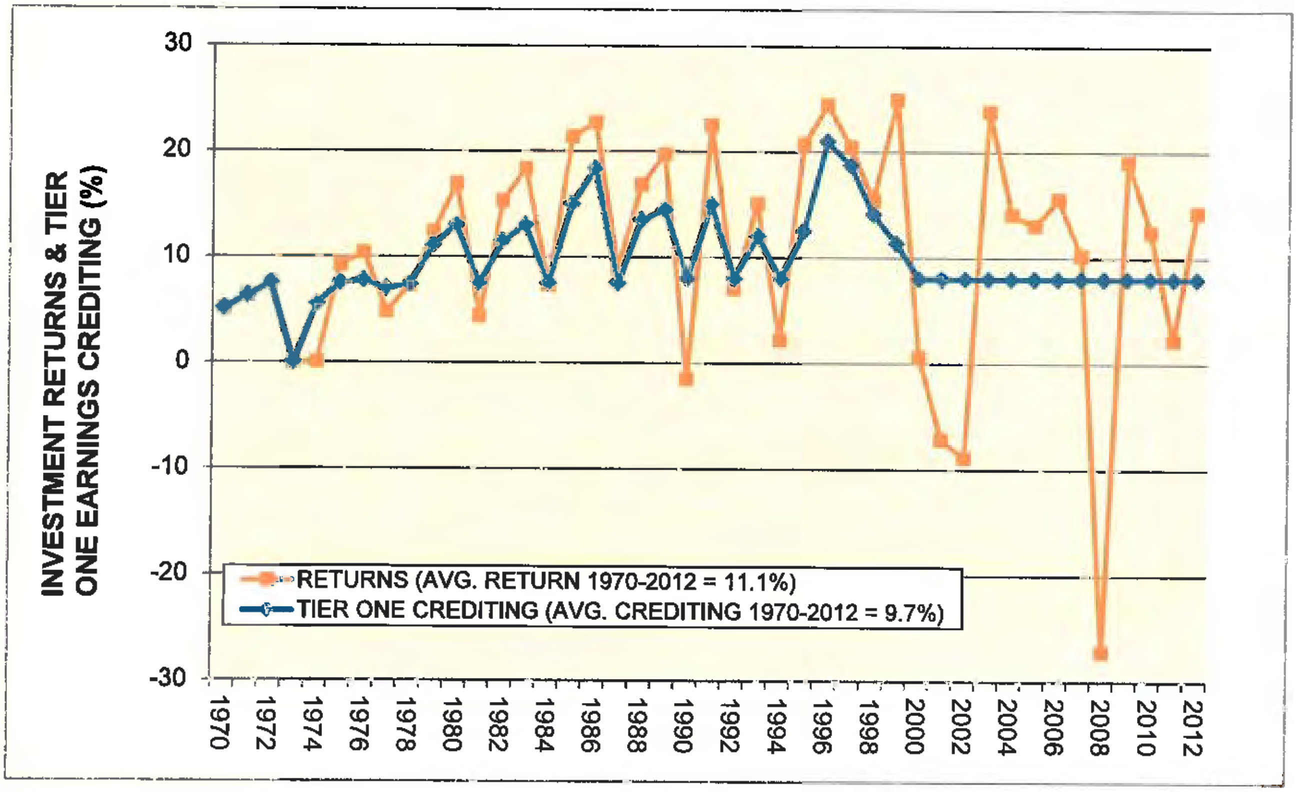
- Earnings credited to IAP accounts since 2004: 7.8%.
- Earnings credited to Tier Two accounts since 1996: 9.7%.

43-year averages (1970-2012)

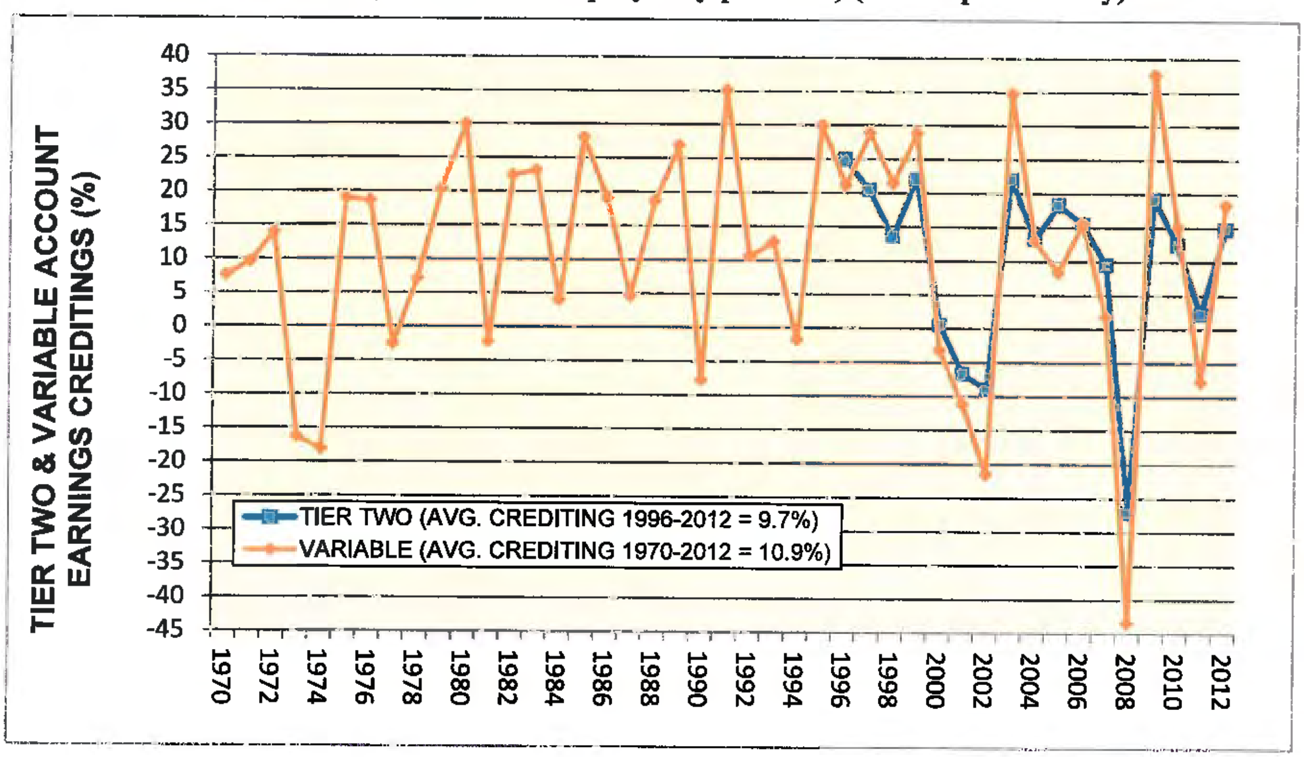
- Regular account earnings available for crediting: 10.4%.
- Earnings credited to Tier One regular accounts: 9.7%.
- Earnings credited to variable accounts: 10.9%.

4. *System Revenue (continued)*

Regular account earnings available for crediting and actual distributions to Tier One member regular accounts (2012 is preliminary)



Actual distributions to Tier Two member regular accounts and to Tier One and Tier Two member variable accounts (invested in an equity only portfolio) (2012 is preliminary)



4. *System Revenue (continued)*

Preliminary 2012 earnings crediting ($ millions)

Reserve/Account	Balance Before Crediting	2012 Crediting	Balance After Crediting	2012 Rates
Contingency Reserve	$533.3	$70.4	$603.7	N/A
Tier One Member Regular Accts	5,961.8	476.9	6,438.7	8.00%
Tier One Rate Guarantee Reserve	(345.3)	325.5	(19.8)	N/A
Benefits-In-Force (BIF) Reserve	19,160.7	2,739.4	21,900.1	14.30%
Tier Two Member Regular Accts	666.2	97.2	763.4	14.59%
Employer Reserves	16,744.9	2,391.9	19,136.8	14.28%
OPSRP Pension Program	1,040.0	144.3	1,184.9	13.87%
UAL Lump-Sum Payment Side Accts*	4,782.3	731.3	5,513.6	Various
IAP Accounts**	4,250.8	595.7	4,846.5	14.19%
Regular Account Total	**$52,795.3**	**$7,572.6**	**$60,367.9**	

* Side account earnings rates for lump sums on deposit vary depending on when the deposit was made within the calendar year and are not affected by Board reserving or crediting decisions.

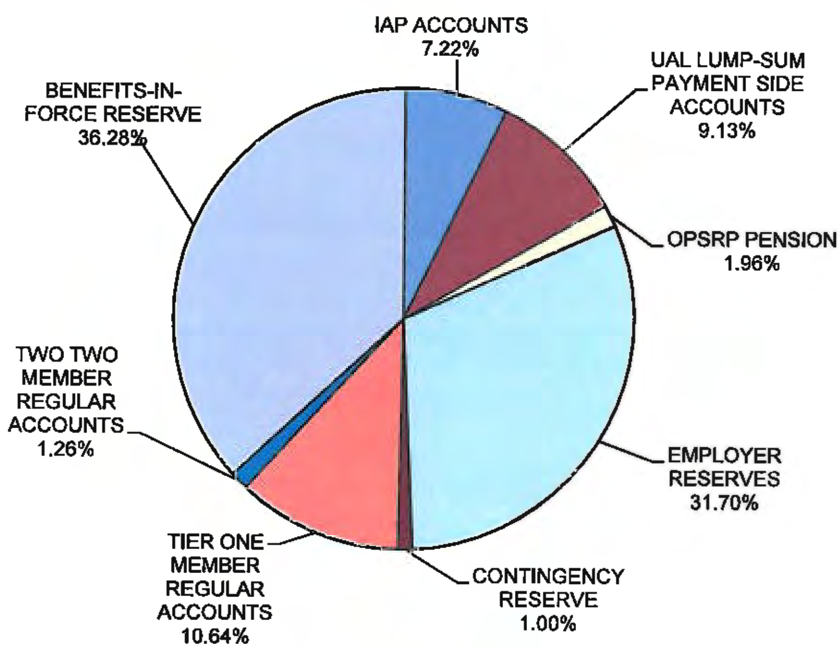
** Informational only; not affected by Board reserving or crediting decisions.

Contingency Reserve: This reserve can be used for any purpose the Board determines is appropriate so long as the use of the funds furthers the trust's purpose. It is funded in years that investment income exceeds the assumed rate (currently 8 percent).

Tier One Rate Guarantee Reserve: This reserve is used to credit the assumed rate on Tier One member regular accounts in years when the fund earns below 8 percent, and to hold excess earnings from the years when the fund earns more than 8 percent.

Benefits-In-Force Reserve: This reserve is used to pay retired member's benefits and annuities. It is funded by earnings and fund transfers from member accounts and employer reserves associated with retirements processed during a calendar year.

Percent of total Regular Account after 2012 earnings crediting (preliminary)



4. *System Revenue (continued)*

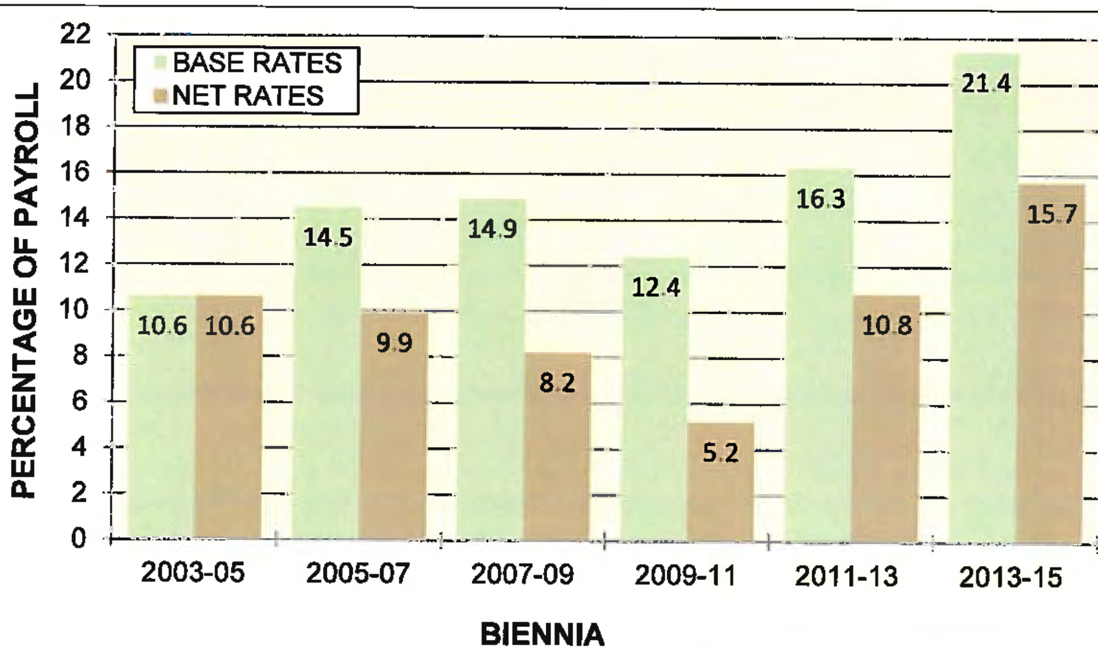
System-wide average employer contribution rates excluding retiree health insurance (RHIA/RHIPA)

Valuation Year	Rate Effective Dates	Average Rate With Side Accounts (%)	Average Rate Without Side Accounts (%)	Annualized Salary ($M)
1975	Various	11.21	11.21	1,014.5
1977	Various	11.87	11.87	1,226.8
1979	Various	10.97	10.97	1,488.0
1982	Various	10.13	10.13	2,062.1
1985	Various	10.87	10.87	2,428.3
1987	Various	11.30	11.30	2,764.7
1989	Various	9.74	9.74	3,199.4
1991	Various	9.19	9.19	3,887.5
1993	Various	9.15	9.15	4,466.8
1995	Various	9.42	9.42	4,848.1
1997	Various	11.40	11.40	5,161.6
1999	7/1/01 – 6/30/03	10.74	10.74	5,676.6
2001	7/1/03 – 6/30/05	10.64	10.64	6,256.5
2003*	7/1/05 – 6/30/07	14.47*	18.89*	6,248.5
2005**	7/1/07 – 6/30/09	8.22	15.01	6,792.0
2007	7/1/09 – 6/30/11	4.73	12.42	7,721.8
2009	7/1/11 – 6/30/13	10.8	16.3	8,512.0
2011	7/1/13 – 6/30/15	15.7	21.4	8,600.0

* December 31, 2003 rates were phased-in. Actual rate paid averaged 10.58% with employer side accounts and 15.10% without employer side accounts.

** Includes weighted average rate for Tier One/Tier Two and OPSRP beginning in 2005.

System-wide average employer contribution rates as a percent of covered salary (net rates include side account offsets)



- EXCLUDES 6% MEMBER CONTRIBUTION AND PENSION OBLIGATION BOND DEBT SERVICE PAYMENTS
- INCLUDES TIER ONE/TIER TWO AND OPSRP
- RATES FOR 2005-07 AND BEFORE ARE AS OF VALUATION DATE

5. *Economic Impact of PERS Benefit Payments*

PERS benefits contribute to Oregon's economy

Oregon PERS paid approximately $3.2 billion in total monthly benefits in 2011, with $2.8 billion to PERS benefit recipients living in Oregon. Funding of these benefits came primarily from investment earnings on contributions previously paid by members and public employers. These benefit recipients spent a significant portion of this money on goods and services in Oregon, which helped support local businesses. These businesses then purchased goods, in part, from other local vendors, further supporting Oregon's workforce and economy.

Annual PERS benefits generate $3.3 billion in total economic value to Oregon

PERS benefits paid to Oregon residents have a significant impact on Oregon's economy. The $2.8 billion in annual benefit payments multiply to $3.3 billion in total economic value to Oregon when the full financial impact of these dollars spent in local communities is considered (based upon economic multipliers provided by the U.S. Department of Commerce's Bureau of Economic Analysis).

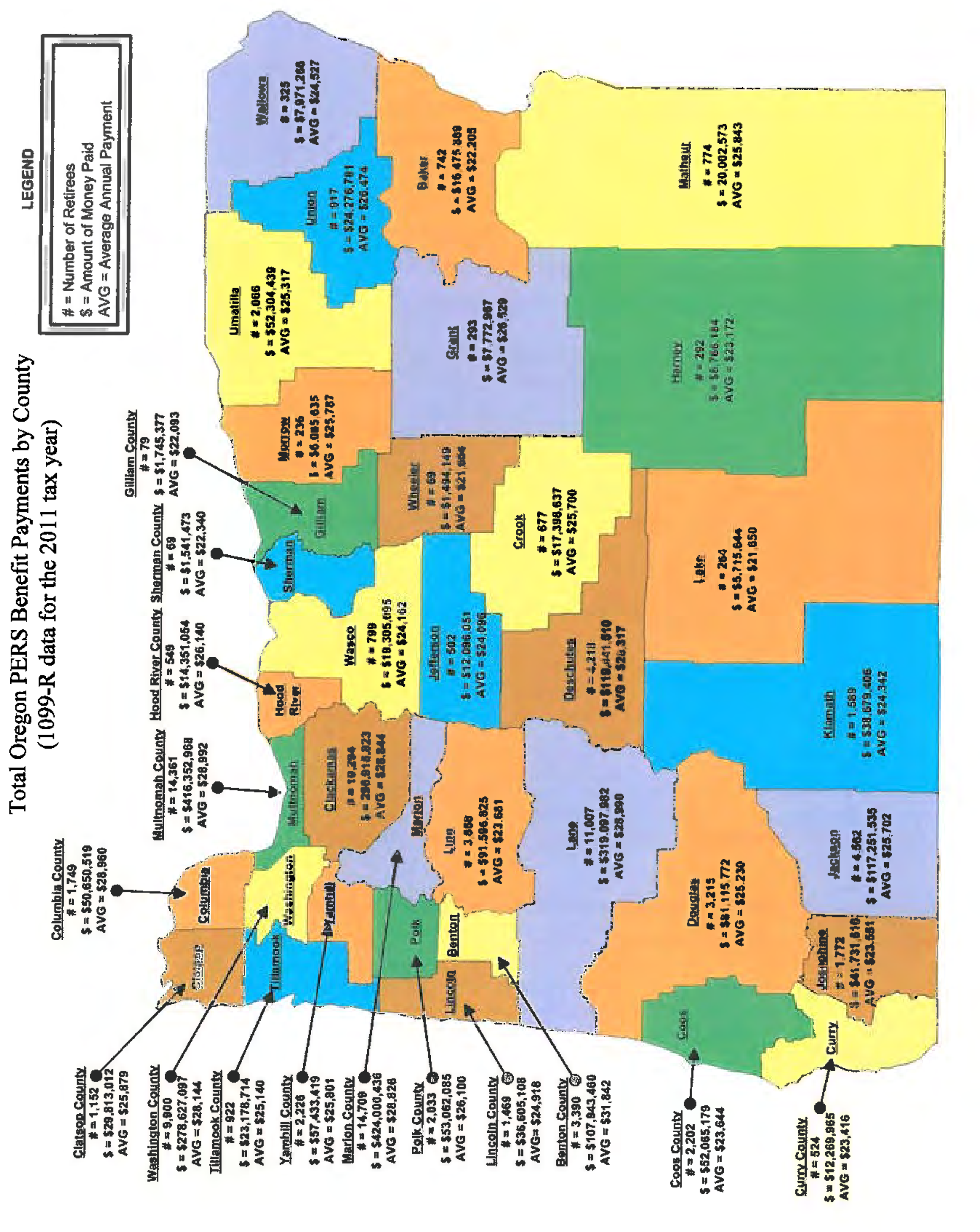
The economic activity generated by PERS benefit payments sustain an estimated 29,725 Oregon jobs, and add approximately $906 million in wages to Oregon's economy.

Additionally, the state of Oregon collected an estimated $136 million in income taxes on PERS retiree benefits during 2011.

Investment income provided 73% of total PERS' revenues from 1970-2012, with member contributions providing 6% and employer contributions providing 21%.

5. *Economic Impact of PERS Benefit Payments* *(continued)*

PERS benefit payments by county (2011 calendar year)



5. *Economic Benefit of PERS (continued)*

PERS benefit payments by state (2011 calendar year)