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To: **Steve Rodeman, Administrator,**
Policy Planning and Legislative Analysis

From: **Craig Stroud, Administrator, Benefit Payments Division**

CC: **PERS Executive Team**

Subject: **Proposed Method to Estimate Retirement Transactions Pending Conclusion of the *City of Eugene* Case**

The Benefit Payments Division proposes PERS adopt the following method to estimate member retirement transactions pending the Oregon Supreme Court conclusion of the *City of Eugene* case.

The PERS Board's direction at the March 29, 2005 meeting was relatively clear - PERS staff is directed to defer implementation of the *Strunk* opinion and the *City of Eugene* case until the Oregon Supreme Court concludes both outstanding legal challenges. This direction impacts two transaction groups. The first group is those transactions PERS has already completed, such as a retirement allowances, death benefits, or disability payments computed and paid. The second group is current and future transactions that members are just electing and PERS is only now executing. Because the Board has directed PERS to defer implementation, these current and future transactions are all estimated payments, but must be based on certain assumptions.

BPD proposes to conduct current and future transactions based on the assumptions described below. BPD will defer recalculation of previously executed transactions until the *City of Eugene* case is concluded and we receive subsequent Board direction. The goal in developing assumptions for these current and future transactions is to err on the side of initially under paying benefits to avoid if possible the associated complications of overpaying benefits and subsequently invoicing benefit recipients.

Initial analysis of the *Strunk* opinion (in isolation of the *Eugene* case) concludes that current and future benefits would increase because earnings at the assumed rate of eight percent would be added to Tier One member regular accounts for 2003 and 2004. To the contrary, applying the impact of Judge Lipscomb's opinion in the *City of Eugene* case dampens the increases provided by *Strunk* and 1999 earnings of 20 percent are reduced to 11.33 percent for these same members.

One possible basis for calculating current and future estimated benefits is to use existing member account balances. For Tier One members, these balances include 1999 earnings at 20 percent, zero earnings for 2003 and 2004, and a pro-rate of the assumed rate for 2005. This method produces a significant underpayment, since *Strunk* must be implemented at some point to pay the assumed rate for 2003 and 2004.

BPD's preferred basis for calculating estimated payments to current and future retirees would be to assume the *Eugene* case is upheld. Under this proposal, BPD would recalculate Tier One member regular account balances using 11.33 percent earnings for 1999, then compounded forward to the transaction date, including earnings at the assumed rate for 2003 and 2004 and the pro-rate for 2005. This basis results in an estimated payment that is as close to actual as can be approximated, given the court decision uncertainties, without overpaying benefits.

A third basis would be to recognize the earnings crediting required by the *Strunk* opinion but not adjust for the 1999 earnings crediting of 11.33 percent. This basis would result in an overpayment if Judge Lipscomb's decision is not upheld and does not comport to the current status of these cases.

Attachment A is a chart showing sample retirement benefit amounts under the three bases described above. Attachment B graphically depicts what would happen to the retirement benefit under the three bases as well: *Strunk* only; *Strunk* and *Eugene* (BPD's recommended alternative method); and present balance.

Given that the alternative method of estimating current and future benefit amounts provides the benefit floor for retirees, BPD recommends retirement, death, and disability transactions executed from now until the *Eugene* case is finalized be estimated using the preferred basis described.

ATTACHMENT A

Benefit Payments Division
Example Impacts of Strunk and Strunk/Eugene to Retirement Benefits

Retirements April 1, 2005 through December 1, 2005, Member was active at Retirement

		Strunk			Strunk and Eugene		
Effective Retirement Date	Present Balance Calculation	Recalculated Benefit	Change in Benefit - $	Change in Benefit - %	Recalculated Benefit	Change in Benefit - $	Change in Benefit - %
4/1/2005	$ 2,400	$ 2,799	$ 399	16.6%	$ 2,615	$ 215	9.0%
12/1/2005	2,400	2,799	399	16.6%	2,616	216	9.0%

Retirements April 1, 2005 through December 1, 2005, Member was Dormant on Jan 1, 2000

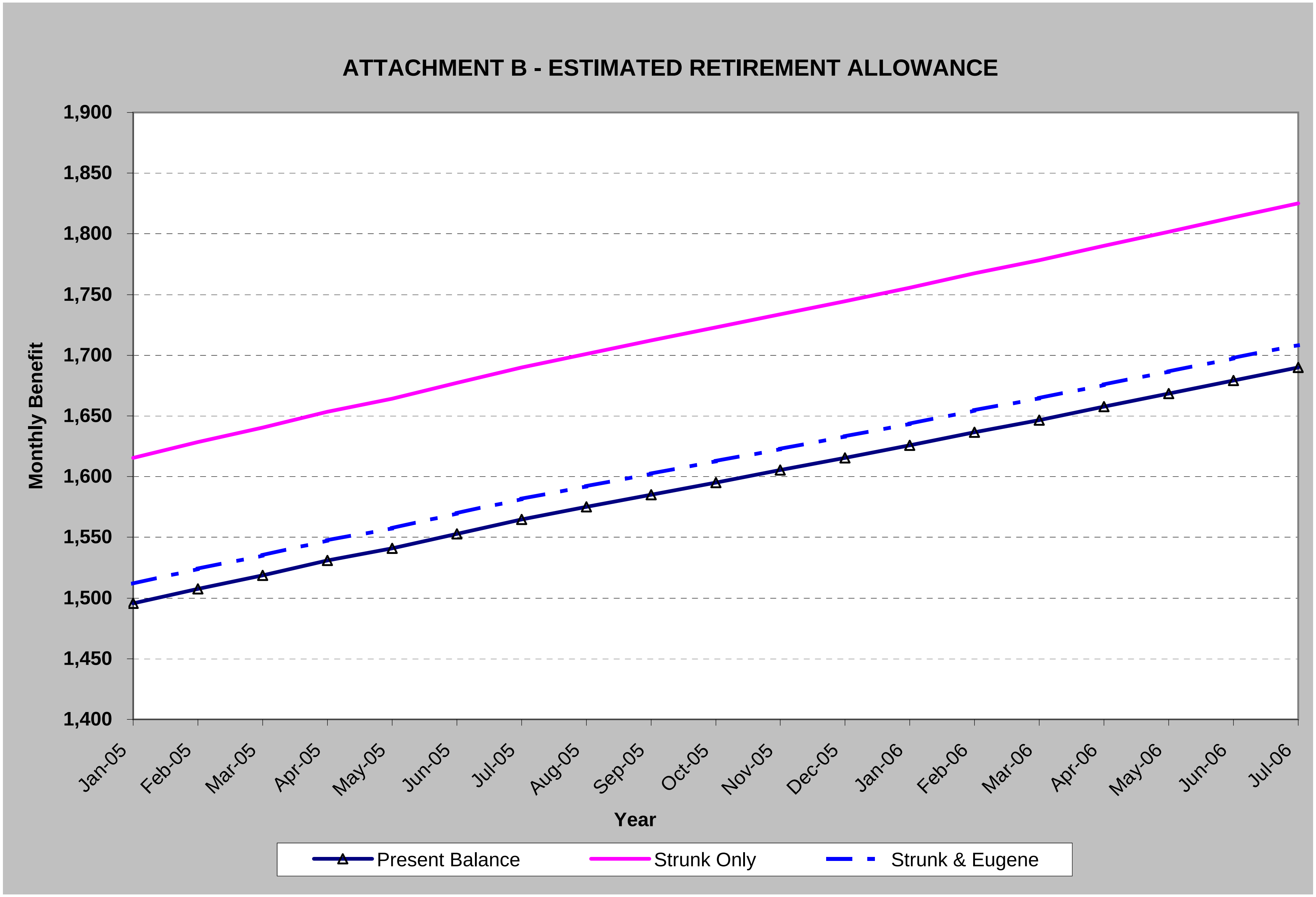
		Strunk			Strunk and Eugene		
Effective Retirement Date	Present Balance Calculation	Recalculated Benefit	Change in Benefit - $	Change in Benefit - %	Recalculated Benefit	Change in Benefit - $	Change in Benefit - %
4/1/2005	$ 2,400	$ 2,799	$ 399	16.6%	$ 2,597	$ 197	8.2%
12/1/2005	2,400	2,799	399	16.6%	2,597	197	8.2%

Assumptions Used in Example Calculations:

- Original benefit calculated with 20 percent interest in 1999 and 0 percent for 2003 and 2004 and 8 percent prorate for 2005.
- Strunk benefit calculated with 8 percent interest added for 2003, 2004 and 2005, and 20 percent for 1999.
- Strunk/Eugene benefit calculated with 8 percent interest added for 2003, 2004 and 2005, and 11.33 percent for 1999.
- There has been no House Bill 3349 tax remedy or COLA adjustment done to the benefits.
- Money Match produced the highest benefit.
- Retiree had never contributed to the variable program.
- Retiree was age 58 at their effective retirement date.
- Benefit was calculated as an option 1.

General Conclusions:

- All future Retirees would recieve a higher benefit with Strunk and Eugene than Present Balance Calculation.
- If Eugene ruling is upheld, those calculations could be the actual benefit.
- If Benefit was calculated under Eugene, the amount of any future RETRO due would be less.


ATTACHMENT B - ESTIMATED RETIREMENT ALLOWANCE
Monthly Benefit
1,900
1,850
1,800
1,750
1,700
1,650
1,600
1,550
1,500
1,450
1,400
Jan-05
Feb-05
Mar-05
Apr-05
May-05
Jun-05
Jul-05
Aug-05
Sep-05
Oct-05
Nov-05
Dec-05
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Year
Present Balance
Strunk Only
Strunk & Eugene