Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division

Public Employees Retirement System: Only Isolated Incidences of Pension Inflation Among PERS Employers

Summary

The Public Employees Retirement System (PERS) provides retirement coverage for approximately 330,000 Oregon public employees, serving more than 900 cities, counties, state agencies, schools, special districts, and other public entities. PERS collects and reviews compensation information from all of the participating employers and uses that data to calculate individual members' pension payouts upon retirement.

In recent years, 'outsized' pensions for public employees have drawn increased amounts of public scrutiny. Employers sometimes allow eligible compensation for their employees to grow above the assumed rate, which can inflate employee's pensions. Often, these increases in compensation are legitimate and commonplace. Examples include promotions, earned overtime, and reasonable amounts of accrued vacation time. Pension inflation may also be achieved through undesirable means.

When numerous employees use pension inflation tactics, they can drive up the costs of compensation and negatively impact the fiscal health of an organization or even an entire pension system. The purpose of our audit was to determine whether or not there was a significant amount of pension inflation taking place among PERS members and what effect that inflation may have on the PERS system.

PERS costs for state and local agencies in the 2013-2015 biennium grew by $900 million over costs from the previous biennium. These costs put increasing pressure on government budgets. One potential contributing factor to ballooning pension costs in other states and local governments, including some California counties, has been the prevalence of inflated pensions.

Our analysis of over 14,000 PERS records did not show any systemic pension inflation or salary growth issues with 2010-2013 retirees. We compared PERS compensation data for members who retired from January 2010 through December 2013 to the actuarial assumption of 3.75% compensation growth per year. Contributions paid by

employers to cover future pension costs are based in part on the average rate of salary growth. We found that only a small portion of the records greatly exceeded the assumed rate.

We also found that provisions of individual employment contracts may have an effect on pension payouts. However, the inflation of pensions, either intentional or unintentional, appears infrequent. The impact on PERS appears to be negligible.

Oregon public employers are still recovering from the Great Recession, which may have had a dampening effect on salary growth rates during the last several years. While pension inflation is not necessarily an issue now, some public employers are establishing processes and controls to help ensure that it does not become an issue in the future. PERS, unlike some of the employers it serves, is well positioned to conduct analyses of the entire PERS system and individual accounts. We recommend that PERS consider periodically analyzing compensation data for signs of pension inflation and inform employers when a pattern appears.

Agency Response

The agency response is attached at the end of the report.

Background

Pension Inflation

In recent years, 'outsized' pensions for public employees have drawn increased amounts of public scrutiny. PERS costs for state and local agencies in the 2013-2015 biennium grew by $900 million over costs from the previous biennium. These costs put increasing pressure on government budgets. One potential contributing factor to ballooning pension costs in other states was the prevalence of inflated pensions.

Pension inflation, sometimes referred to as 'pension spiking,' occurs when an employer allows an employee to boost their final pension payout by increasing the amount of salary used to calculate his or her pension. Pensions can be inflated in a number of ways, including increasing salary or overtime payments, paying out significant lump sum amounts, cashing out the dollar value of unused vacation time, or otherwise increasing eligible compensation factored into a retiree's pension calculation.

Increases in eligible compensation, while often legitimate, can result in a substantial pension payment increase for the retiree. Depending on an employer's size, a few relatively isolated cases of inflation will only marginally increase pension costs. But if the group's average pension inflation exceeds 3.75%, it can lead to an increase in the employer's long-term pension liabilities and costs. Actuaries assume the statewide public workforce will experience a 3.75% annual increase in compensation. This assumed rate is based on national inflation and wage trends. It is applied across all PERS employers. It is not intended to be applied directly to particular employers or individual employees, as fluctuating rates within the system are expected to occur.

While pension inflation was banned in California in 1993 in order to control state pension costs, multiple California counties that run their own pension funds drew public attention in 2011 for rewarding some retirees unusually large pensions. According to the Los Angeles Times, one Ventura County executive had approximately $70,000 in eligible compensation added to her last paycheck, which resulted in a yearly pension payout almost 20% higher than her final salary. Other states, including Colorado, Georgia and New Hampshire, have recently taken steps to mitigate inflation in order to control their own pension costs.

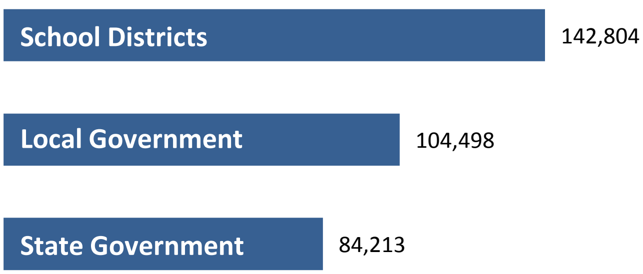
The majority of Oregon PERS employees hired after August 2003, as well as those whose retirement benefits are calculated under Money Match, are not easily able to inflate their pensions using the benefit calculation methods available to them. However, Tier 1 and 2 Full

Formula retirees have fewer restrictions in place to limit pension inflation.

If a large enough number of employees are allowed to inflate their pensions, there could be a notable increase in costs across the system as a whole.

The PERS system covers most of Oregon's public employees

Figure 1: School districts are the biggest PERS employer group (Total members, December 31, 2013)



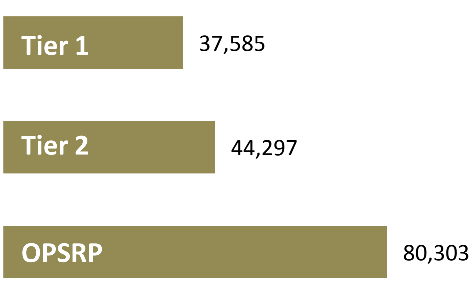
The Public Employees Retirement System (PERS) provides retirement coverage for approximately 330,000, or about 95% of, Oregon public employees. It serves more than 900 cities, counties, state agencies, schools, special districts, and other public entities. This includes active members who currently work for a public employer that participates in PERS; inactive members, who no longer work for a PERS employer, but who have not yet retired; and retired members.

Figure 2: Most PERS retirees and beneficiaries are in Tier 1 (Retirees & Beneficiaries, December 31, 2013)

PERS members participate in Tier 1, Tier 2, or Oregon Public Service Retirement Plan (OPSRP) pension programs depending upon their hire dates:

- Tier 1: before January 1, 1996;
- Tier 2: January 1, 1996 to August 28, 2003;
- OPSRP: on or after August 29, 2003.

Figure 3: While most *active* PERS members are in OPSRP (Active members, December 31, 2013)



Tier 1 employees make up the majority of retirements right now, though this will change in the coming decades, as Tier 1 members transition out of the workforce and more Tier 2 and OPSRP employees reach retirement age. In general, Tier 1 is the least restrictive of the three and the most open to pension inflation, while OPSRP is the most conservative option and more difficult to inflate.

Pension benefits vary by tier and type of position

Pension benefits are calculated using one of three methods, based on a retiree's tier and which method (outlined below) will give the retiree the highest benefit.

The Full Formula and Formula plus Annuity methods start with an average of the employee's salary, called the Final Average Salary (FAS). For employees in Tier 1 or 2, the average is based on either the employee's three highest calendar years of salary or the last 36 months of salary. For those in the OPSRP plan, the calculation is based on the average of the employee's highest three *consecutive* years of salary or one-third of total salary over the last 36 months, whichever is higher. The Final Average Salary is multiplied against a Formula Factor and the employee's years of eligible service to come up with the pension benefit amount.

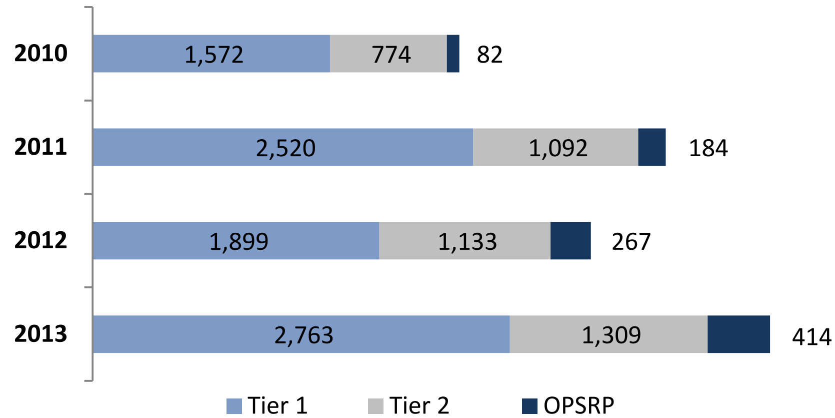
Depending on the retiree's Tier, the Final Average Salary can include more than just salary, such as unused vacation leave, unused sick leave, and certain other lump-sum payments. For example, Tier 1 FAS calculations include any unused vacation leave and can include unused sick leave if the employer's policy allows. In contrast, the FAS for Tier 2 can only include unused sick leave, and not vacation leave. OPSRP calculations cannot include unused vacation or sick leave.

Figure 4: Full Formula Calculations, by Tier

Tier 1:	Average salary over the highest three calendar salary years OR Average salary over last 36 months of employment	**+**	Lump-sum payments, typically for vacation time or comp time.	**+**	Value of 50% of unused sick leave (if employer participates)	**+**	Employer-paid PERS contributions
Tier 2:	Average salary over the highest three calendar salary years OR Average salary over last 36 months of employment	**+**	Some lump-sum payments, *but lump-sum vacation is not included in FAS*	**+**	Value of 50% of unused sick leave (if employer participates)	**+**	Employer-paid PERS contributions
OPSRP:	Average salary over the highest three *consecutive* calendar salary years OR One-third of total salary over last 36 months of employment	**+**	Some lump-sum payments, *but lump-sum vacation is not included in FAS*				

In the Money Match calculation method, the employer matches the value of an employee's retirement account. The total is then annuitized over the employee's expected life and paid out over the employee's retirement.

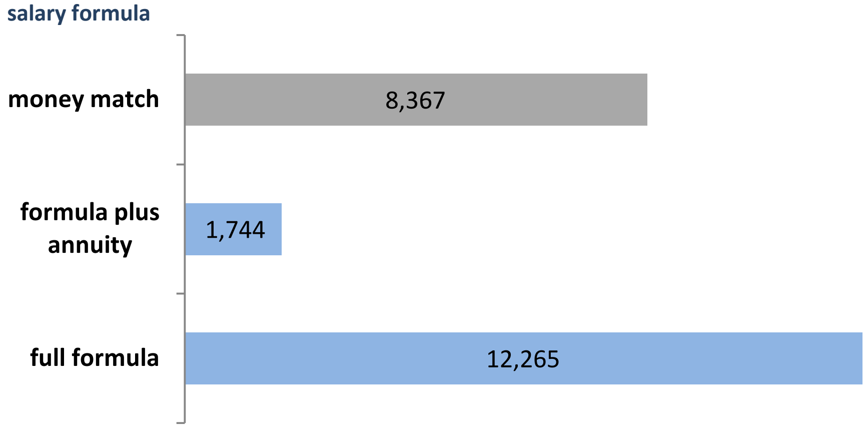
Figure 5: Rate of retirements increasing for OPSRP members



From 2010 through 2013, roughly 22,400 PERS members retired. About 37% had pensions calculated using Money Match. Money Match is not subject to pension inflation because it does not use a Final Average Salary, so an employee has no way to inflate the pension benefit when it is calculated under this method.

The remaining 14,000 retirements were calculated using the Full Formula or Formula plus Annuity methods.

Figure 6: More than 60% of PERS 2010-2013 retirees used a final average salary formula



The number of PERS retirements increased from 2010 to 2013, with notable jumps in 2011 and 2013, particularly for Tier 1 and OPSRP retirees. Tier 1 still comprised the largest group of retirees as of 2013, but the proportion of retirees from OPSRP will grow rapidly as Tier 1 and Tier 2 employees leave the workforce.

Compensation practices can increase pension liabilities

PERS contribution rates are affected by unfunded liabilities

PERS employers pay a percentage of their total payroll costs to PERS to cover pension costs for their employees. These contribution rates are calculated biannually and are based on the projected pension costs for current employees, vested inactive employees, and retirees. If pension costs increase faster than expected, funds already paid into the system may not cover the cost of benefits for retired employees. Investment returns can help make up the difference, but they may not be sufficient to make up the entire shortfall. The portion of the shortfall not covered by investment returns becomes an unfunded liability for the employer. To cover the shortfall, PERS amortizes the unfunded liability over time and includes that amount in the contribution rate.

Pension actuaries assume that employee salaries will grow by an average of 3.75% across the entire PERS system, based on current economic inflation and past salary growth. Actuaries test this assumption every two years and update it as necessary; the current 3.75% rate has been in place since 2006, when it was 4.00%. If compensation growth across the system were to exceed this amount, employers could see their PERS liabilities increase.

Rate pools help moderate fluctuations in compensation rates, but also spread the cost of unfunded liabilities to other employers

Because PERS contribution rates are based in part on an employer's total payroll costs, large changes in payroll costs can cause an employer's contribution rate to fluctuate. To help moderate these swings, PERS uses rate "pools" that allow or require employers to group together for the purpose of setting contribution rates. Statute currently provides for three employer rate pools:

- State and Local Government Rate Pool (SLGRP): required for state agencies and community colleges, voluntary for local governments;
- School Districts: required for all public school districts, public charter schools, and education service districts;
- OPSRP: required for all participating employers.

Contribution rates for each employer in a rate pool are based on multiple factors, some of which are shared across the pool and some that are specific to the employer.

By spreading risk across many employers, rate pools also spread the potential effects of pension inflation to other employers, though the effect on any single employer may be negligible. For example, in 2009 Oregon Health Sciences University (OHSU) integrated the nonprofit OHSU Medical Group, not previously a PERS employer, into OHSU, which is part of the SLGRP. From that point forward, all compensation for former Medical Group employees is paid by OHSU and is considered PERS subject salary. This greatly increased the amount of salary that applied to some doctors' PERS benefits – in some cases the PERS-eligible salary more than doubled. OHSU officials consulted with PERS officials to determine the impact of the changes on pension liabilities. While this would have significantly inflated the pension benefits for those who retired in the years following the integration, PERS reports that it did not have a noticeable effect on contribution rates in the SLGRP.

An upcoming court decision could also affect employer rates

The Oregon State Legislature passed Senate Bills 822 and 861 in 2013, modifying the existing cost of living adjustment (COLA) for PERS retirees. The bills reduced COLA rates down to 1.5% per year starting in 2013 (SB822) and 1.25% per year with temporary supplementary payments for low income recipients starting in 2014 (SB861). Legal challenges to the legislation were heard by the Oregon Supreme Court in October of 2014. The Court will decide whether the new COLA rates are constitutional and can continue to be applied to pension benefit payments. If the Court overturns the laws, COLA rates will return to their previous, higher levels and employer contribution rates are likely to increase.

Recent recession may have affected compensation growth for 2010-2013 retirees

The recent recession had a substantial impact on state and local economies throughout the country. While we may not be able to directly trace the influence of the recession on employee compensation for PERS employers in Oregon, it's possible the recession and the years directly following had a dampening effect on public employee compensation. The economic recovery could spur increases in government revenue, which could lead to increases in compensation growth for all public employees and opportunities for pension inflation for Tier 1 and 2 employees.

Audit Results

The purpose of our audit was to determine whether a significant amount of pension inflation is taking place among PERS members and what effect that inflation may have on the PERS system.

Pension inflation does not appear to be common and likely does not have a substantial impact on the Oregon PERS system. Excluding Money Match, we analyzed compensation data for all 2010-2013 PERS retirees. Within this group, only a relatively small number of retirees appeared to have experienced growth in eligible compensation above the assumed 3.75% rate. The assumed rate is based in part on national average wage growth. It is not intended to be applied directly to particular PERS employers or individual employees, as fluctuating rates within the system are expected to occur. We also interviewed PERS representatives and some participating employers. The majority of eligible compensation increases we reviewed and discussed with employers were explainable by promotions, emergency overtime, or other causes attributable to the normal course of work. The few remaining instances were mostly permissible, though we did not determine whether employees intentionally contrived to obtain larger pensions.

Public employers ultimately have responsibility for ensuring that pension inflation does not negatively impact their finances. Some of the employers we interviewed noted this, and in several cases were taking active steps to reduce the possibility of pension inflation within their organizations. On the other hand, PERS administers public employee pension benefits for participating employers. This position may allow PERS to help employers identify potential cases of pension inflation.

Decreasing growth trends for eligible compensation suggest pension inflation is not widespread

Compensation growth fell sharply during the final years of employment for 2010-2013 retirees

The number of retirees with significant compensation growth dropped substantially from 2010 to 2013. Among 2010 retirees, about half had salary increases above 3.75% per year during their final three calendar years of employment. On the other hand, less than a quarter of 2013 retirees had salary growth that exceeded that amount.

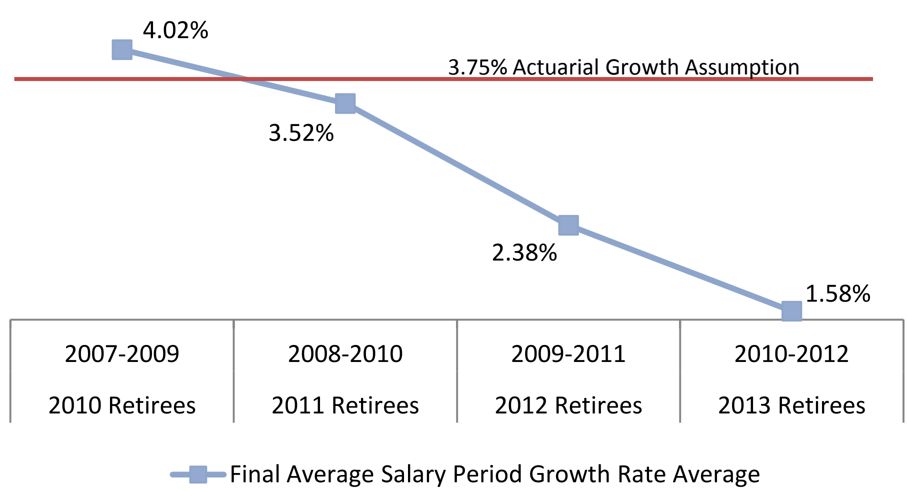
Figure 7: Percentage of records with FAS growth above 3.75% per year over final three calendar years

Year of Retirement (YOR)	Percentage
2010	50.2%
2011	40.3%
2012	27.9%
2013	22.9%

Compensation growth rate averages include four forms of PERS eligible compensation: base salary, overtime, vacation payments, and lump sum payments.

A number of different variables play into establishing the assumed growth rates, including larger economic trends. Periods of 'boom and bust,' which include the recent recession, may lead to increases and decreases in assumed and actual salary growth. In fact, when we looked only at the final full three years of employment for each group, a new salary growth trend emerged.

Figure 8: Average yearly growth rates over final three full years of employment

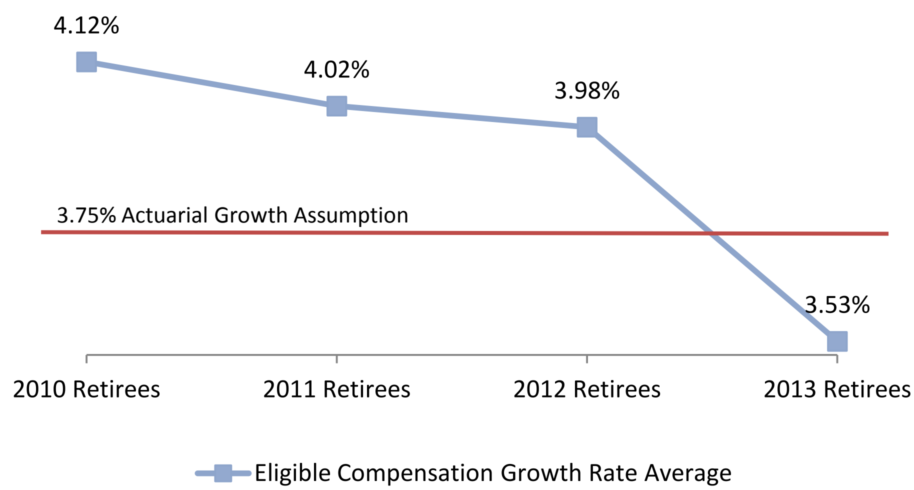


Most 2010-2013 PERS retirees did not see significant increases to their compensation from year to year. During and after the recession growth in retirees' salaries slowed down. The slowdown was more apparent for OPSRP employees than for Tier 1 or Tier 2, and salary growth in the final three years of full employment dropped for all retirement year groups.

Average yearly compensation growth for retirees appears to be declining

Compensation growth diminished for each year of retirement. Retirees in 2010 showed an average yearly salary growth rate over ten years of 4.12% for each full year of employment - somewhat higher than the current actuarial assumption - while 2013 retirees showed a rate of 3.53% for each full year of employment, slightly below the assumption. The assumed rate was 4.00% until 2006, which means that yearly growth rates up until that point were generally higher than they are now. The drop in average compensation growth rates from 2010 retirees to 2013 retirees appears to confirm that annual growth rates have declined.

Figure 9: Total average compensation growth rates over the previous 10 years, by retirement group



With the exception of 2013 retirees, the average compensation growth rates for retirees in their final ten years of employment- nine years for 2010 retirees- is somewhat above the assumption. However, non-retiree compensation in the workforce could be lower than the 3.75% assumption, and would not contribute to increasing unfunded liabilities.

Pension inflation does not appear to be a significant issue at the system level and for the majority of employers. If indeed there is a broader system impact, it may be mitigated by the recent overall trend toward declining salary growth. While there are some isolated instances that impact individual public employers, PERS and other employers are taking steps that may limit pension inflation caused by increases to final average salary. Pension inflation may become even more infrequent as Tier 1 and 2 employee retirements are gradually replaced by OPSRP retirements in the coming years and decades.

Only isolated incidences of pension inflation, related to unusual employment circumstances

Most incidents of pension inflation appear to be justifiable and legitimate

A majority of the 2010-2013 PERS retirees had salary growth rates that met or fell below the actuarial assumption of 3.75% per year. We identified some retirees who received unusual and exceptional compensation payments. Five cases are profiled in the following section. In one of these profiled cases, employees of PERS identified the inflation and took action to correct the pension calculation. We found other cases that had reasonable explanations for the increases. In each of the cases, employees benefited from one or more of these compensation components, which we discuss below:

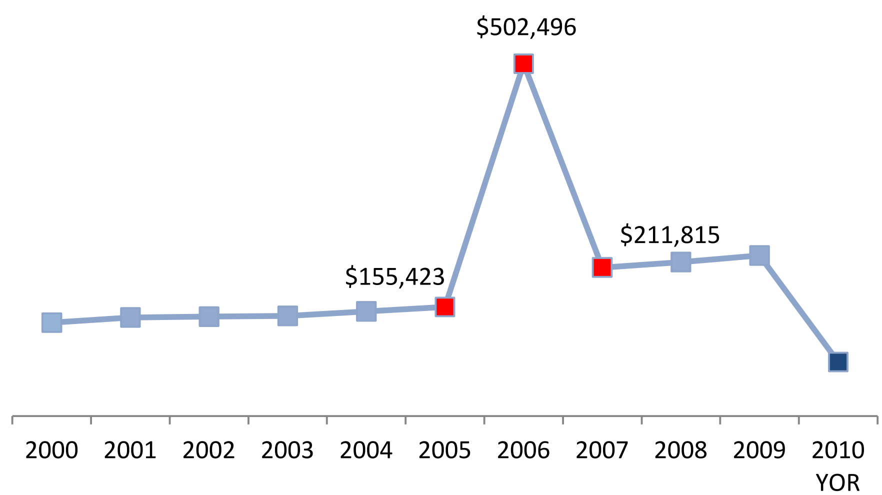
- eligible salary
- vacation payments
- overtime
- lump sum payments

In all of the profiled cases, the retirees were Full Formula recipients with many years of public service. In three of the cases, the retirees had individual employment contracts with their employers. As noted, one example was altered by PERS upon review, but PERS and the profiled employers indicated that the other cases were allowable.

Eligible Compensation: Eligible Salary

One individual we identified with unusual eligible salary growth retired in 2010 after working for the Eugene Water and Electric Board. This individual received an additional payout of deferred salary in 2006, boosting the employee's total salary to almost $503,000 that year. The following year, this person's salary dropped back down to approximately $212,000. Upon retirement in 2010, PERS reviewed the case and determined that portions of the retiree's salary had been withheld every year for several years and had been paid out on top of regular salary in 2006.

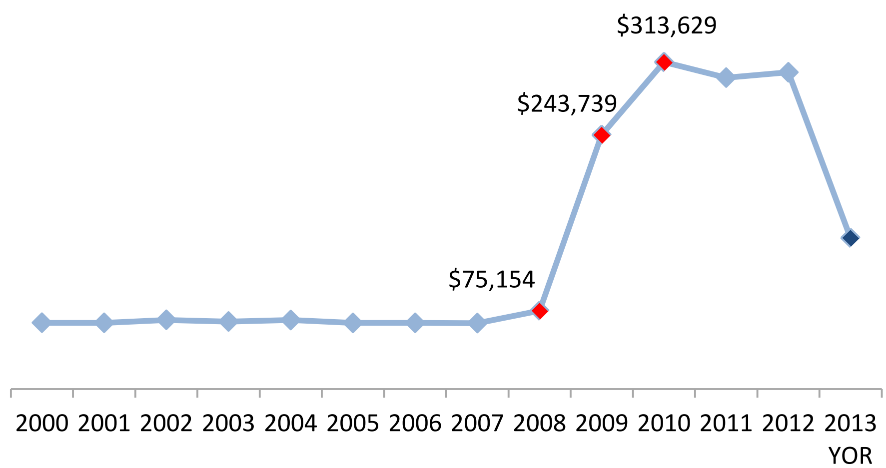
Figure 10: Eugene Water and Electric Board retiree salary growth example



PERS reported having retroactively distributed the withheld salary to the years it was earned, which was confirmed by the Eugene Water and Electric Board. According to PERS, this significantly reduced the retiree's pension amount.

As mentioned previously, OHSU also had several employees who appeared to experience significant compensation growth. OHSU confirmed that those employees' salaries were paid solely by OHSU after the integration of the separate, nonprofit OHSU Medical Group into OHSU in 2009. OHSU consulted with PERS and both parties were aware that the change in compensation would end up inflating some retirees' pensions.

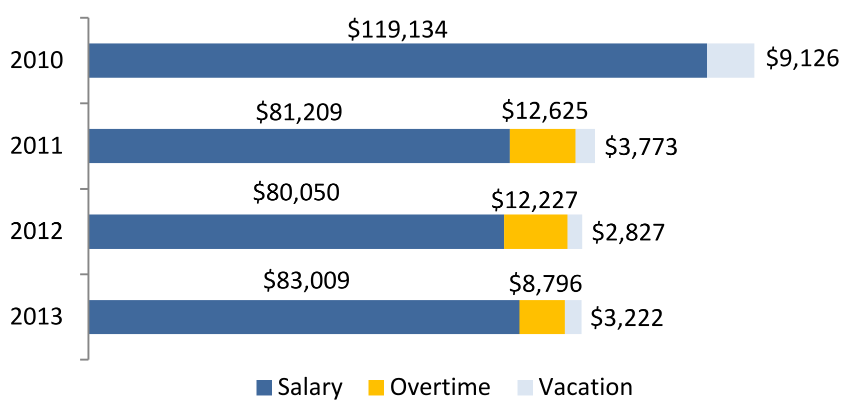
Figure 11: OHSU Medical Group employee compensation shift increases PERS eligible salary



Eligible Compensation: Overtime Payments

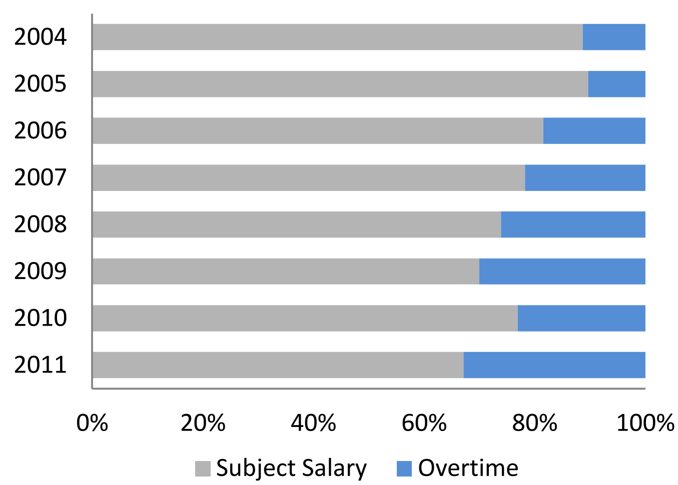
A review of PERS compensation data showed fire department retirees recorded more overtime per person than other groups represented in the 2010-2013 data. We interviewed individuals at two departments with the highest reported overtime rates: Tualatin Valley Fire and Rescue (TVFR) and Jackson County Fire District #3 (JCFD3). Both departments have automated systems for distributing overtime hours to eligible staff; however, because some employees are trained and certified to handle specific situations, they may have to step in more frequently to cover shifts or events that require individuals with those particular certifications.

Figure 12: TVFR retirement year groups, average annual overtime earnings since 2000



Overtime can contribute to pension inflation, but we did not identify any cases where the reported overtime was not legitimate or justifiable. Some individual retirees worked more overtime than others, and in some cases there were notable increases in overtime from year to year. The overtime increases for TVFR and JCFD3 employees were not necessarily tied to final average salary periods. According to both departments, increases in overtime reflected changes in overall staffing needs for particular years. For example, TVFR noted that some of their employees may have been called out as contract employees on state conflagration fires, which would have increased their accrued overtime. One employee was certified as a paramedic and for water rescue. Those certifications led to salary increases, and may also have led to higher overtime, as there are a limited number of TVFR employees who can respond to water rescue calls.

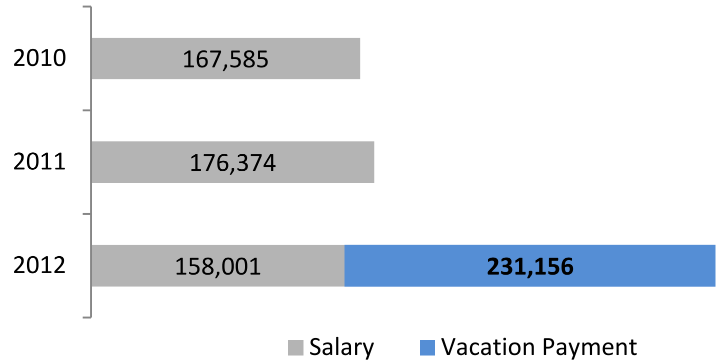
Figure 13: TVFR 2012 retirees example: proportion of subject salary and overtime to eligible compensation



Eligible Compensation: Vacation Payments

At the end of 2012, one employee of the Metro regional government retired and cashed out $230,000 worth of unused vacation time. According to Metro, this employee had an employment contract that did not include a vacation accrual cap, which meant this individual was able to accrue unused vacation until retirement. This is reportedly the only Metro employee who did not have such a cap. The vacation payment inflated the final average salary and resulting pension payout significantly. PERS was aware of this case, but the claim was legitimate at the time it was made.

Figure 14: Metro example, final three years PERS eligible compensation

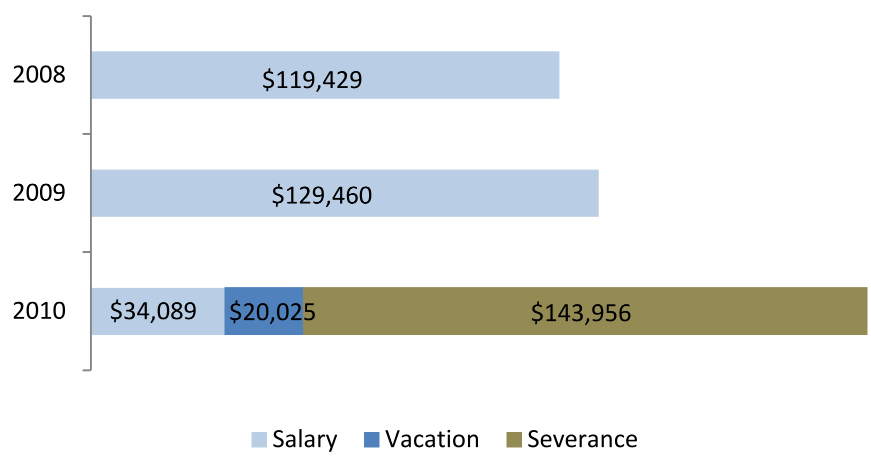


We estimate this individual's annual pension payout increased by about $37,000. Over the course of the next twenty years, this person could potentially receive added benefits of about $863,000.

Eligible Compensation: Lump Sum Payments

A Jackson County Fire District #3 (JCFD3) employee was terminated from employment in 2010, formally retiring the following year. According to the fire district, a stipulation in this individual's employment contract required the district to pay a year's worth of salary and benefits as a severance payment. The employee received a final lump sum severance payment of $144,000 and $20,000 in vacation payouts upon leaving the district. These amounts factored in this individual's pension payout, as part of the Final Average Salary.

Figure 15: JCFD3 2011 retiree severance payment and salary



We estimate this individual increased the annual pension payout by about $9,400 based on their JCFD3 income. Over the course of the next twenty years, this person could potentially receive added benefits of about $218,000.

PERS' data review is thorough, but depends on employer reporting

PERS reviews the accuracy of a retirement applicant's entire history of reported eligible salary, overtime, vacation, and lump sum payments before calculating their retirement. PERS has a process for ensuring that employer compensation data is as accurate as possible According to PERS, data entered into the system by the employer must pass 190 separate validations before it is accepted and recorded in the system. In our conversations with employers, we encountered one instance of an employer's data not matching up with the PERS recorded data. In that instance, the employer admitted there had been changes made to their own records that had not been updated in the PERS database.

PERS does not specifically review employer compensation data for signs of pension inflation, though it does look at unusual salary growth (over 50%) and contribution rate changes. Isolated incidences of pension inflation may not have a measurable impact on the PERS system as a whole. However, if pension inflation becomes more common as the economy recovers from the recession, it could pose a risk to employers with a large proportion of Tier 1 and 2 Full Formula employees.

Some employers implemented policies that can help limit pension inflation

The employers we interviewed about compensation controls were able to cite specific changes they had instituted in recent years to help manage compensation costs. These include vacation accrual limits, automated overtime distribution systems, cost of living adjustment decreases, and reducing specialty payments such as longevity provisions. By limiting compensation costs, these controls also reduce the potential for significant pension inflation.

Recommendations

We recommend that PERS:

- Consider periodically analyzing employer compensation data for signs of pension inflation and communicating with employers if patterns appear.

Objectives, Scope and Methodology

Our audit objective was to determine whether a significant amount of pension inflation is taking place among PERS members and what effect that inflation may have on the PERS system.

We first reviewed the system as a whole to determine whether average compensation growth exceeded the 3.75% actuarial assumption. We analyzed fourteen years worth of compensation data (2000-2013) for all Oregon PERS 2010-2013 retirees. Based on the difficulty of inflating Money Match pensions that do not use final average salary calculations, we chose not to analyze data from over 8,000 Money Match retirees and focused on the remaining 14,009 Full Formula and Formula plus Annuity recipients.

To analyze the system-wide data, we looked at the overall eligible compensation growth rates for all retirees. In order to highlight possible examples of pension inflation, we reviewed individual employers, employer categories, PERS job classification code groups, benefit calculation method groups, year of retirement groups, and individual employees. We also focused on individual employees who showed possible signs of pension inflation activity. Because of the diversity of PERS-participating employers, we judgmentally selected a sample of 48 retirees from 15 different employers that represented a cross-section of employers, such as fire and water districts, universities, and cities and counties. The sample we selected was not intended to identify all possible causes of pension inflation and it was not designed to be statistically representative of all PERS retirees and employers. As such, we did not project our results based on the sample to the entire population of PERS retirees and employers. These examples, and any steps taken by employers to mitigate pension inflation activity, were discussed in employer interviews.

We interviewed 12 employers based on their PERS contribution rates and salary growth rates for 2010-2013 retirees. Each employer we interviewed about compensation growth had one or more employees with compensation increases that could have been the result of pension inflation. We asked employers to explain the compensation increases we saw and to verify the accuracy of PERS compensation data using their own records. We further asked about compensation policies they had in place and actions they were taking as organizations to mitigate possible inflation. We also reviewed actuarial reports, experience studies, applicable statutes and administrative rules, and interviewed PERS employees.

For some retirees, we estimated inflated pension costs to employers over a 20 year period and compared that to the pension the individual might have received otherwise. For these estimates we applied the employees' actual years of eligible service and assumed they would receive pension payments for at least 20 years past their official retirement dates. We used the 1.5% annual cost of living adjustment established by SB822 in 2013. We did not include unused sick leave or factor in the 6% employer paid pickup.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Oregon

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January 27, 2015

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RE: Response to Pension Inflation Audit

Dear Mr. Blackmer:

Thank you for the opportunity to respond to your report on pension inflation among PERS employers. We are pleased to see that you found that pension inflation is not common and does not substantially impact the retirement system. Over the years, legislative changes, as well as the diligence of participating employers, have helped to curb pension growth to help make the system more sustainable.

While no instances of unallowable pension inflation were found during this audit, we agree with your recommendation to analyze employer data.

Recommendation: Consider periodically analyzing employer compensation data for signs of pension inflation and communicating with employers if patterns appear.

Response: Every three years PERS will analyze employer compensation data and communicate with employers if patterns appear that may cause pension inflation or when salary changes fall significantly outside the normal actuarial assumptions.

Again, thank you for the opportunity to respond to this report. We appreciate the analysis performed by your audit team.

Respectfully,

Steven Patrick Rodeman
Executive Director
Oregon Public Employees Retirement System

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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The courtesies and cooperation extended by officials and employees of the Public Employees Retirement System during the course of this audit were commendable and sincerely appreciated.