

**Oregon Public Employees Retirement System**

Retiree Health Insurance Premium Account  
Single-Employer Other Postemployment Benefits (OPEB) Plan  
Schedule of OPEB Amounts

As of and for the Year Ended June 30, 2017



Certified  
Public  
Accountants

**Oregon Public Employees Retirement System**  
Retiree Health Insurance Premium Account Single-Employer OPEB Plan  
Schedule of OPEB Amounts  
As of and for the Year Ended June 30, 2017

*Table of Contents*

	<i>Page(s)</i>
Independent Auditor’s Report.....	1-2
Schedule of OPEB Amounts.....	3
Notes to the Schedule of OPEB Amounts .....	4-8



## Independent Auditor's Report

To the Honorable Kate Brown  
Governor of Oregon

To the Public Employees Retirement Board of the  
Oregon Public Employees Retirement System  
Tigard, Oregon

We have audited the columns titled net OPEB liability as of June 30, 2016 and 2017, total deferred outflows of resources, total deferred inflows of resources, and OPEB expense (specified column totals) included in the accompanying schedule of Other Postemployment Benefits (OPEB) amounts (the schedule) of the Oregon Public Employees Retirement System (System) Retiree Health Insurance Premium Account (RHIPA) Single-Employer Defined Benefit OPEB Plan (the Plan), and the related notes, as of and for the fiscal year ended June 30, 2017.

### *Management's Responsibility for the Schedules*

Management is responsible for the preparation and fair presentation of the schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on the specified column totals included in the schedule of OPEB amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures for the specified column totals included in the schedule of OPEB amounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the specified column totals included in the schedule of OPEB amounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the specified column totals included in the schedule of OPEB amounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the specified column totals included in the schedule of OPEB amounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the schedule referred to above presents fairly, in all material respects, the net OPEB liability as of June 30, 2016, and June 30, 2017, and the total deferred outflows of resources, total deferred inflows of resources, and OPEB expense for the Oregon Public Employees Retirement System Retiree Health Insurance Premium Account (RHIPA) Single-Employer Defined Benefit Other Postemployment Benefits Plan as of and for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

We have audited, in accordance with standards generally accepted in the United States of America, the financial statements of the fiduciary activities and the proprietary activities of the Oregon Public Employees Retirement System as of and for the fiscal year ended June 30, 2017, and our report thereon dated December 1, 2017, expressed unmodified opinions on those financial statements.

### ***Restriction on Use***

Our report is intended solely for the information and use of the System's management, the Audit Committee, the Public Employees Retirement Board, the State of Oregon and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Gini & O'Connell LLP*

Sacramento, California  
April 11, 2018

**Oregon Public Employees Retirement System**  
Retiree Health Insurance Premium Account  
Single-Employer Other Postemployment Benefit Plan  
Schedule of OPEB Amounts  
As of and for the Year Ended June 30, 2017

				Deferred Outflows of Resources				Deferred Inflows of Resources				OPEB Expense
Employer Number	Employer Name	June 30, 2016 Net OPEB Liability	June 30, 2017 Net OPEB Liability	Differences between Expected and Actual Experience	Changes in Assumptions	Difference between Projected and Actual Investment Earnings	Total Deferred Outflows of Resources	Differences between Expected and Actual Experience	Changes in Assumptions	Difference between Projected and Actual Investment Earnings	Total Deferred Inflows of Resources	Total OPEB Expense
1000	State Agencies	\$ 53,666,663	\$ 46,651,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 507,330	\$ 507,330	\$ 5,355,712
Total for All Entities		\$ 53,666,663	\$ 46,651,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 507,330	\$ 507,330	\$ 5,355,712

# Oregon Public Employees Retirement System

Retiree Health Insurance Premium Account  
Single-Employer Other Postemployment Benefit Plan  
Notes to the Schedule of OPEB Amounts  
As of and for the Year Ended June 30, 2017

---

## Note 1 - Description of Plan

### ***A. Organization***

Oregon Public Employees Retirement System (PERS or the System) administers a single-employer defined benefit Other Postemployment Benefit (OPEB) plan (the Plan) for units of state government (Employer), with the state as one employer. Plan assets may be used to pay the benefits of the employees of any state agency that provides OPEB through the Plan. Contributions are mandatory for each state agency. As of June 30, 2017, there are 108 participating state agencies.

PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Public Employees Retirement Board (Board) to administer and manage the System. All members of the Board are appointed by the governor and confirmed by the State Senate. The governor designates the chairperson. One member must be a public employer manager or a local elected official, one member must be a union-represented public employee or retiree, and three members must have experience in business management, pension management, or investing.

### ***B. Plan Membership***

The Retiree Health Insurance Premium Account (RHIPA) was established by ORS 238.415. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service with a state agency in the System at the time of retirement, or (2) are receiving a disability pension calculated as if they had eight or more years of qualifying service but are not eligible for federal Medicare coverage. RHIPA was closed to new entrants hired on or after August 29, 2003.

As of June 30, 2017, retired RHIPA plan participants receiving benefits totaled 1,252. As of June 30, 2017, there were 16,482 active members who meet the requirements to receive RHIPA benefits when they retire. Inactive members are not eligible for these benefits.

## Note 2 - Summary of Significant Accounting Policies

### **Governmental Accounting Standards Board (GASB) Statement No. 75**

Employers participating in the Plan are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The requirements of this Statement incorporate provisions intended to reflect the effects of transactions and events related to OPEB in the measurement of employer liabilities for OPEB and recognition of OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB.

# Oregon Public Employees Retirement System

Retiree Health Insurance Premium Account  
Single-Employer Other Postemployment Benefit Plan  
Notes to the Schedule of OPEB Amounts  
As of and for the Year Ended June 30, 2017

The Schedule of OPEB Amounts under GASB 75 report prepared by PERS' third-party actuaries, along with PERS audited financial statements, provide the required information for financial reporting related to PERS OPEB provided through the Plan as of and for the year ended June 30, 2017 (the measurement period).

## Basis of Accounting

The accompanying schedule of OPEB amounts was prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, PERS, adheres to the reporting requirements established by the GASB.

## Use of Estimates in the Preparation of the Schedule

The preparation of the schedule of OPEB amounts in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

## Note 3 - Net OPEB Liability and Actuarial Assumptions and Methods

The components of the employer's net OPEB liability are as follows:

Net OPEB Liability	Measurement Date	
	6/30/2016	6/30/2017
Total OPEB Liability	\$ 68,685,146	\$ 70,947,195
Fiduciary Net Position	15,018,483	24,295,926
<b>Net OPEB Liability</b>	<b>\$ 53,666,663</b>	<b>\$ 46,651,269</b>
Plan net position as a percentage of Total OPEB Net Liability	21.9 %	34.3 %

Oregon Public Employees Retirement System  
Retiree Health Insurance Premium Account  
Single-Employer Other Postemployment Benefit Plan  
Notes to the Schedule of OPEB Amounts  
As of and for the Year Ended June 30, 2017

**Actuarial methods and assumptions**

	<b>June 30, 2016</b>	<b>June 30, 2017</b>
Valuation date	December 31, 2015	December 31, 2015
Measurement date	June 30, 2016	June 30, 2017
Experience Study	2014, published September 23, 2015	2014, published September 23, 2015
Actuarial assumptions:		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Inflation rate	2.50 percent	2.50 percent
Long-term expected rate of return	7.50 percent	7.50 percent
Discount rate	7.50 percent	7.50 percent
Projected salary increases	3.50 percent	3.50 percent
Retiree healthcare participation	Varies by service at decrement, increasing from 10% at eight years of service to 38% at 30 years of service.	Varies by service at decrement, increasing from 10% at eight years of service to 38% at 30 years of service.
Healthcare cost trend rate	Applied at beginning of plan year, starting with 6.3% for 2016, decreasing to 5.3% for 2019, increasing to 6.5% for 2029, and decreasing to an ultimate rate of 4.4% for 2094 and beyond.	Applied at beginning of plan year, starting with 6.3% for 2016, decreasing to 5.3% for 2019, increasing to 6.5% for 2029, and decreasing to an ultimate rate of 4.4% for 2094 and beyond.
Mortality	<p><b>Healthy retirees and beneficiaries:</b>  RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p><b>Active members:</b>  Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p><b>Disabled retirees:</b>  Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>	<p><b>Healthy retirees and beneficiaries:</b>  RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p><b>Active members:</b>  Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p><b>Disabled retirees:</b>  Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study, which reviewed experience for the four-year period ended on December 31, 2014.

**Discount Rate**

The discount rate used to measure the total OPEB liability of the Plan was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions are made at the contractually required rates, as actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.



# Oregon Public Employees Retirement System

Retiree Health Insurance Premium Account  
Single-Employer Other Postemployment Benefit Plan  
Notes to the Schedule of OPEB Amounts  
As of and for the Year Ended June 30, 2017

---

## Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model. For more information on the Plan's portfolio, assumed asset allocation, and the long-term expected rate of turn for each major asset class, calculated using both arithmetic and geometric means, see PERS' audited financial statements at:

[http://www.oregon.gov/pers/docs/financial\\_reports/2017\\_cafr.pdf](http://www.oregon.gov/pers/docs/financial_reports/2017_cafr.pdf)

## Depletion Date Projection

GASB 75 generally requires that a blended discount rate be used to measure the total OPEB liability (the actuarial accrued liability calculated using the individual entry age normal cost method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's fiduciary net position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the fiduciary net position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 75 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 75 (paragraph 39) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100 percent funded position by the end of the amortization period if future experience follows assumption.
- GASB 75 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our third-party actuary's opinion that the detailed depletion date projections outlined in GASB 75 would clearly indicate that the fiduciary net position is always projected to be sufficient to cover benefit payments and administrative expenses.

# Oregon Public Employees Retirement System

Retiree Health Insurance Premium Account  
Single-Employer Other Postemployment Benefit Plan  
Notes to the Schedule of OPEB Amounts  
As of and for the Year Ended June 30, 2017

---

## Deferred Inflows of Resources and Deferred Outflows of Resources

Differences between expected and actual experience and changes in assumptions are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. The Employer is required to recognize OPEB expense based on the balance of the closed period “layers” attributable to each measurement period. The average remaining service life determined as of the beginning of the June 30, 2017 measurement period is 7.2 years.

The difference between projected and actual earnings is amortized over a closed five-year period.

Deferred inflows of resources and deferred outflows of resources are calculated at the Plan level. For the measurement period ended June 30, 2017, there was:

- No difference between expected and actual experience.
- No difference due to changes of assumptions.
- A difference between projected and actual earnings. One-year’s amortization is recognized in the employer’s total OPEB expense for the measurement period.

Employer contributions made after the measurement date are not reflected in the schedule of OPEB amounts. Appropriate treatment of such amounts is the responsibility of the Employer.

If you have questions about this report or need additional financial information, please contact the Financial and Administrative Services Division Administrator at PO Box 23700, Tigard, Oregon 97281-3700.

## Note 4 – Subsequent Event

The Board reviews the discount rate in odd-numbered years as part of the Board’s adoption of actuarial methods and assumptions. That rate is then adopted in an administrative rule at the time the Board sets the new rate. On July 28, 2017, the PERS Board adopted a 7.20% assumed rate.

The rule specifies that the adopted assumed rate will be effective for PERS transactions with an effective date of January 1, 2018, consistent with this Board’s policy decision from 2013 that the assumed rate will be effective January 1 following the Board’s adoption of the rate. A January 1 effective date also provides equitable treatment to all members who retire in a year that a change is adopted, no matter which month they retire. The adopted assumed rate will be aligned with the new actuarial equivalency factors (AEFs), which will allow for a clear effective date for all transactions that involve calculations using both the rate and AEF components.