

December 2010

City of Portland (FPDR)

**ORS 237.620 (4) Equal to or Better Than (ETOB) Test
as of December 31, 2008**

**Prepared on behalf of:
Oregon PERS Public Employees Retirement Board;
City of Portland**

MERCER

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Executive Summary

This report has been prepared by Mercer for the Oregon Public Employees' Retirement System (PERS) Board. This report provides the details of the determination that the City of Portland qualifies for the exemption under ORS 237.620(2) from participation in PERS under the Preliminary Determination testing option approved by the PERS Board.

A public employer that provides retirement benefits to its police officers and firefighters under a plan other than PERS may petition the PERS Board for an exemption from participation in PERS for those employees. Under the current Oregon Administrative Rule (OAR) governing the test, the plan offered by such a public employer to its police officers and firefighters must be tested against PERS every twelve years to determine if the benefits are equal to or better (ETOB) than those provided under PERS. If either the public employer's plan or PERS are amended to provide a different level of benefits than currently provided, another test may need to be performed to compare the new benefit formulas prior to end of the twelve year period. In order for an employer to be granted the exemption, the employer's benefits must be at least 80 percent of the benefit provided by PERS for both service retirement benefits and disability retirement benefits, and at least 100 percent of the total PERS benefit. The comparison is done separately for each PERS tier.

Under the testing framework approved by the PERS Board, an employer who sponsors a defined benefit retirement plan can satisfy the ETOB requirement either through a side-by-side comparison of plan provisions (known as a Preliminary Determination approach) or through a more detailed analysis including actuarial valuations performed under both the employer's plan provisions and those offered by Oregon PERS (known as a Full Test). The Preliminary Determination approach will only be satisfied if the employer-funded portion of the benefits offered by an employer's plan clearly and convincingly surpass the employer-funded portion of the benefits offered to the relevant tiers of Oregon PERS safety members under the testing methodology specified by the governing statute and administrative rules. Any employers who do not satisfy the ETOB requirement via Preliminary Determination will undergo a Full Test.

Based on the information shown in this report for the City of Portland Fire and Police Disability and Retirement Fund, the City of Portland satisfies the ETOB requirement via Preliminary Determination and is eligible for the exemption from participation in PERS under OAR 459-030-0025.

Testing Methodology

The methodology for determining whether or not an employer provides benefits that are equal to or better than PERS is described in OAR 459-030-0011 and 459-030-0025. This section outlines our understanding and interpretation of the testing prescribed by the administrative rules and approved by the PERS Board. While the Preliminary Determination applied to this employer does not require application of all testing assumptions, the ETOB testing methodology described here provides the framework within which the Preliminary Determination is conducted.

- The test consists of two parts, which we refer to as the Preliminary Determination and the Full Test. The Preliminary Determination consists of a comparison of the major components of plan provisions of the tested employer's retirement plan and Oregon PERS. The benefits compared in the test focus on and include those related to retirement, disability, and medical coverage benefits provided in retirement. Other provisions considered include the definition of salary, required member contributions, and the form of payment. Since the benefits provided by the various PERS tiers vary by date of hire, we paid special attention to any historical changes in the employer's plan provisions. An employer will be deemed to satisfy the test under the Preliminary Determination if the employer-funded portion of their retirement plan's benefits are clearly and convincingly more valuable than the employer-funded portion of benefits provided to safety members by each tier of PERS under the testing methodology specified by the governing statute and administrative rules. For employers who do not pass the Preliminary Determination, we performed the Full Test as described below.
- The benefits to be compared in the test are the full-career benefits expected to be accumulated assuming: (1) an employee is covered by the employer's plans for his or her entire career, reflecting any historical plan changes and assuming the current plans remain in place in future years and (2) an employee is covered by the PERS program for their entire career, with the employee's PERS tier determined by his or her hire date. Benefit provisions that applied prior to the earliest hire date of any active employees at the employer are ignored for purposes of the test. In effect, this comparison considers the estimated present value as of the testing date of full-career benefits that are expected to be earned from hire date to each employee's retirement based on data, assumptions and methodology specified by the guiding Oregon Administrative Rules.
- The comparison is based on the total actuarial present value of all expected retirement benefits for the group of employees covered by the test. The administrative rules state that the actuarial present values should be determined based on the assumptions, including the assumed interest rate, used in the actuarial valuation of PERS for police officers and firefighters coincident with the ETOB testing date. The most recent PERS actuarial valuation used an interest rate assumption of 8 percent to determine present values. By rule, this 8 percent assumed rate is used for conducting the ETOB test; this is also consistent with the most recent iterations of ETOB testing. This methodology does not value the transfer of investment and mortality risk to the employee from the employer inherent in the difference between a defined benefit and defined contribution plan.
- In accordance with the statute, only retirement benefits are considered for purposes of the test. Because of this, valuation assumptions for pre-retirement death and termination of employment prior to retirement eligibility are not applied.

Testing Methodology (continued)

- Additional actuarial assumptions that are necessary to value any public employer plan provision that is not comparable to PERS have been developed in a manner consistent with the assumptions used for PERS. A summary of the actuarial assumptions used is provided in the Supplemental Information Section of this report, including any additional assumptions developed to value provisions of employer plans.
- Only employer funded benefits are valued in the test. As such, only the defined benefit portion of PERS is valued as the Individual Account Program (IAP) is considered to be employee funded since employer funding of IAP benefits is defined by statute as elective. For PERS Tier 1 and Tier 2, hypothetical account balances derived from estimated employee contributions and estimated earnings based on the testing assumptions are considered employee-funded and are offset from the total present value of plan benefits to arrive at the net employer-provided amount used for the test comparison. Employee contributions paid by a testing employer on behalf of employees on a non-elective basis and considered employer funded, in accordance with the OAR, are included in the test comparison. A description of any employee funding for this employer's plan is outlined in the Supplemental Information section of this report.
- Per the current administrative rules, hypothetical census data, instead of employer-specific census data, are used in the comparison. The data set used is the PERS police officer and fire fighter data from the December 31, 2008 valuation.
- The "valuation date" is the date set by the Board as of which the retirement benefits under the public employer's retirement plan and under the PERS program shall be compared. The valuation date selected by the Board is December 31, 2008.

The determination of which employer plans are eligible to be included in the test has been made by PERS. A summary of the plan provisions included is provided in the Supplemental Information section of this report.

Important Notices

Mercer has prepared this report exclusively for the Oregon PERS Board and the City of Portland to present the results of a “preliminary determination” ETOB test comparing the estimated value of the City’s FPDR program and the PERS program as of December 31, 2008 as required by ORS 237.620(2) in order to determine whether or not the City of Portland qualifies for the exemption from participation in PERS for its fire and police personnel.

This report may not be relied upon for any other purpose or by any party other than the Board or the City. Mercer is not responsible for the consequences of any unauthorized use. Actuarial computations for purposes other than those specified in this report, such as calculation of ongoing funding requirements, may be significantly different.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic and societal factors, including financial scenarios that assume future sustained investment losses.

A report is a snapshot of a plan’s estimated financial condition at a particular point in time; it does not predict a plan’s future financial condition or its ability to pay benefits in the future and does not provide any guarantee of future financial soundness of the Plan. Over time, a plan’s total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

To prepare this report, *Actuarial Assumptions*, as described in the Actuarial Basis section of this report, are used to select a single scenario from a range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain and the plan’s actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one report to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a report or reports.

Data and plan provisions

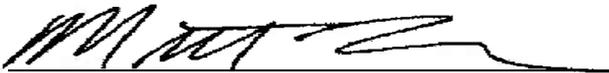
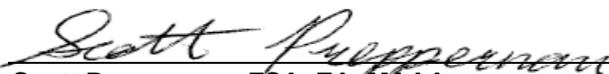
To prepare this report, Mercer has used and relied on participant data supplied by Oregon PERS. We have reviewed the participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. We have also used and relied on the plan documents and governing statutes, including amendments, supplied by Oregon PERS and the City of Portland. A summary of the plan provisions valued is presented in our report. Oregon PERS and the City of Portland are solely responsible for the accuracy, validity and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete the results shown may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

Actuarial Calculations, Methods and Assumptions

Certain actuarial assumptions, including the investment return/discount rate assumption, are prescribed by the governing Oregon Administrative Rules, while other assumptions not prescribed by the rule are based on the most recent experience study, as adopted by the PERS Board. This report is based on assumptions, plan provisions, methods and other parameters as summarized in this report. If this information is inaccurate or incomplete or does not reflect current statutes, regulations or Board directives, the reader of this report should not rely on the results and should notify Mercer promptly.

Professional qualifications

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work.

| | |
|---|-------------------|
|  | December 30, 2010 |
| Matt Larrabee, FSA, EA, MAAA | Date |
|  | December 30, 2010 |
| Scott Preppernau, FSA, EA, MAAA | Date |
| Mercer (US), Inc. 111 SW Columbia Street, Suite 500 Portland, OR 97201 | |
| 503 273 5900 | |

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

Supplemental Information

The remainder of the report includes information supporting the results presented in the previous sections.

- **Test results** describes the results of the preliminary determination ETOB test.
- **Actuarial basis** describes the plan provisions, as well as the methods and assumptions used to value the plans. The actuarial review is based on the premise that the current plans are ongoing.

Test Results

The City of Portland's Fire and Police Disability and Retirement (FPDR) fund provides three tiers of benefits, as described in the table below.

| FPDR Benefit Tier | Criteria |
|-------------------|---|
| FPDR 1 | Retired on or before January 1, 1990 |
| FPDR 2 | Not FPDR 1 and hired prior to January 1, 2007 |
| FPDR 3 | Hired on or after January 1, 2007 |

Only the benefits provided under FPDR 2 are relevant to the ETOB test. There are no FPDR 1 members active as of the ETOB testing date of December 31, 2008. FPDR 3 members are covered by the OPSRP tier of Oregon PERS, with additional benefits provided by the FPDR fund. By definition, members in FPDR 3 are receiving benefits equal to or better than those provided by Oregon PERS.

Because the benefits provided to safety members in Tier 1 and Tier 2 in PERS are superior to those provided in the Oregon Public Service Retirement Plan (OPSRP), only a comparison of plan provisions between FPDR 2 and those of Tier 1 and Tier 2 was necessary. A brief comparison of key provisions is shown below¹: Please see the appendix for a more complete summary of the benefits available under each program.

| Plan Provision Comparison | FPDR 2 | PERS Tier 1/Tier 2 (Full Formula) |
|-------------------------------|--|---|
| Benefit Formula | 2.8% of Final One-Year Average Pay | 2.0% of Final Three-Year Average Pay |
| Pay Definition | Base Pay | Salary including overtime, pick-up, and unused vacation and sick leave pay-outs (if applicable) |
| Normal Form of Benefit | Joint and 25% survivor benefit | Cash refund annuity with automatic 25% survivor benefit |
| Required Member Contributions | 7% of pay contributions were required until July 1, 1990 | 6% of pay contributions were required until December 31, 2003 |
| Disability Benefits | Duty: 75% of final year's pay Non-duty: 50% of final year's pay | Duty: Greater of 50% of final three year average pay, or normal retirement benefit based on the service that would have been earned if the member had continued working to age 55, payable commencing immediately. Non-duty: Normal retirement benefit based on the service that would have been earned if the member had continued working to age 55, payable commencing immediately. |
| Retiree Medical | None considered in this test | RHIA \$60/month post-65 |

¹ Please note that under the assumptions used for the ETOB test, the Full Formula calculation in PERS provides a superior benefit to the Money Match or Pension Plus Annuity benefits in all but rare cases. For this reason, the comparison is performed to Full Formula provisions.

Test Results *(continued)*

As shown above, the provisions of the City of Portland's FPDR 2 program would provide more valuable benefits in nearly every aspect. The main exception is the definition of plan compensation included for benefit determinations; in this instance the PERS program provides a more valuable definition. In addition, the FPDR 2 program does not provide medical benefits to retirees, while a stipend is offered through the RHIA program in PERS.

To assess the level of benefits provided by these programs, we adjusted the benefit multiplier for each program. We performed this "normalizing" process to reflect the relative value of different features of the plans. How much we adjusted the benefits varied depending on length of an employee's career and salary experience. We considered several demographic profiles ranging from late career employees with many years of service to relatively recent hires with low salary. Based on the range considered and the ETOB testing basis, our analysis indicates that the City of Portland's plan produces employer-funded benefits approximately 125% to 150% of the value of the employer-funded portion of the PERS benefit program.

Based on this result, the City of Portland FPDR plan meets the criteria for passing ETOB testing on the Preliminary Determination basis approved by the PERS Board. Because the ETOB test was satisfied via Preliminary Determination, a Full Test is not required and was not conducted.

Actuarial Basis

Summary of Actuarial Assumptions

The following assumptions were used in valuing the plans and benefits under each Plan (both the ETOB employer plan and the PERS plan) in accordance with OAR 459-030 for purposes of determining whether employer provided benefits that are equal to or better than PERS under ORS 237.620. When applicable, these assumptions are those used in the December 31, 2008, PERS actuarial valuation as performed by Mercer.

| | |
|---------------------------------|--|
| Economic | |
| Investment Return | 8.00% compounded annually |
| Inflation | 2.75% compounded annually |
| Payroll Growth | 3.75% compounded annually. This assumption represents the sum of the inflation assumption and a real wage growth assumption of 100 basis points. |
| Demographic | |
| Compensation | For each employee, a hypothetical full-career compensation array was created based on 2008 plan compensation and the assumed salary scale. |
| Account Balances | Based on hypothetical historical compensation, account balances were developed using the plans' formulas, and accumulated with interest at the greater of the investment return assumption noted above or the plan's guaranteed crediting rate, if any. |
| Mortality – Beneficiaries | <ul style="list-style-type: none"> ▪ Male: RP 2000 Male Table, Generational, Combined Active/Healthy Annuitant, White Collar, no set back ▪ Female: RP 2000 Female Table, Generational, Combined Active/Healthy Annuitant, Blended 33% Blue Collar, no set back |
| Mortality – Retired Members | <p>Healthy:</p> <p>Male: RP 2000 Male Table, Generational, Combined Active/Healthy Annuitant, Blended 33% Blue Collar, no set back</p> <p>Female: RP 2000 Female Table, Generational, Combined Active/Healthy Annuitant, Blended 33% Blue Collar, no set back</p> <p>Disabled:</p> <p>Male: RP 2000 Male Table, Static, Combined Active/Healthy Annuitant, No Collar, set forward 60 months, minimum of 2.25%</p> <p>Female: RP 2000 Female Table, Static, Combined Active/Healthy Annuitant, No Collar, set forward 48 months, minimum of 2.25%</p> |
| Mortality – Non-retired Members | None assumed |
| Withdrawal | None assumed |

Actuarial Basis (continued)

Retirement

Retirement rates vary by service, and are as follows. Rates do not apply until a member is eligible for retirement under the plan.

| Age | <13 years | | 13-24 years | | 25+ years | |
|----------------------------|--|--------|-------------------|--------|-------------------|--------|
| | Tier 1/ Tier 2 | OPSRP | Tier 1/ Tier 2 | OPSRP | Tier 1/ Tier 2 | OPSRP |
| 50 | 1.0% | 1.0% | 3.0% | 2.0% | 35.0% | 7.5% |
| 51 | 1.0% | 1.0% | 3.0% | 2.0% | 20.0% | 7.5% |
| 52 | 1.0% | 1.0% | 3.0% | 2.0% | 20.0% | 7.5% |
| 53 | 1.0% | 1.0% | 3.0% | 2.0% | 20.0% | 35.0% |
| 54 | 1.0% | 1.0% | 3.0% | 2.0% | 20.0% | 20.0% |
| 55 | 3.0% | 3.0% | 12.0% | 5.0% | 20.0% | 20.0% |
| 56 | 3.0% | 3.0% | 8.5% | 5.0% | 20.0% | 20.0% |
| 57 | 3.0% | 3.0% | 8.5% | 5.0% | 20.0% | 20.0% |
| 58 | 3.0% | 3.0% | 8.5% | 5.0% | 20.0% | 20.0% |
| 59 | 5.0% | 5.0% | 8.5% | 5.0% | 20.0% | 20.0% |
| 60 | 5.0% | 5.0% | 8.5% | 15.0% | 20.0% | 20.0% |
| 61 | 5.0% | 5.0% | 8.5% | 8.5% | 20.0% | 20.0% |
| 62 | 10.0% | 10.0% | 30.0% | 30.0% | 40.0% | 40.0% |
| 63 | 10.0% | 10.0% | 20.0% | 20.0% | 40.0% | 40.0% |
| 64 | 10.0% | 10.0% | 10.0% | 10.0% | 40.0% | 40.0% |
| 65 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| <i>Duty Disability</i> | 15% of 1985 Disability Class 1 rates | | | | | |
| <i>Ordinary Disability</i> | 50% of 1985 Disability Class 1 rates, with 0.2% cap | | | | | |
| <i>Merit Increases</i> | Graded merit and longevity rates based on service. These rates are in addition to the 3.75% wage inflation assumption. Sample rates of merit and longevity salary increase are shown in the following table. For 2009 and 2010, the merit increase is assumed to be 0 percent. | | | | | |
| | Duration (Years from Date of Hire) | | Rate | | | |
| | 0 | | 5.13% | | | |
| | 1 | | 4.50% | | | |
| | 2 | | 3.93% | | | |
| | 3 | | 3.42% | | | |
| | 4 | | 2.96% | | | |
| | 5 | | 2.55% | | | |
| | 6 | | 2.20% | | | |
| | 7 | | 1.89% | | | |
| | 8 | | 1.62% | | | |
| | 9 | | 1.39% | | | |
| | 10 | | 1.20% | | | |
| | 11 | | 1.04% | | | |
| | 12 | | 0.91% | | | |

Assumptions Specific to PERS

The following assumptions have been incorporated to value the PERS liabilities. These are consistent with the assumptions applied to Police & Fire members in the December 31, 2008 actuarial valuation for PERS.

| | |
|---|---|
| <i>Benefit Form</i> | All participants are assumed to elect payment in the form of a life annuity, with the exception of the probability of a Tier 1/Tier 2 member electing a lump sum option as described below. |
| <i>Cost-of-Living Adjustments</i> | Assumed to be 2% per year. |
| <i>Lump Sum Option at Retirement for Tier 1/Tier 2</i> | Members retiring may elect to receive a full or partial lump sum at retirement. The probability that a retiring member will elect a lump sum at retirement is summarized below: <ul style="list-style-type: none"> • Partial lump sum: 6% for all years • Total lump sum: 6% for 2009, declining by 0.5% per year until reaching 0.0% • No lump sum: 88% in 2009, increasing by 0.5% per year until reaching 94.0% |
| <i>Purchase of Credited Service at Retirement for Tier 1/Tier 2</i> | For Non-Money Match retirements, 55% are assumed to purchase credit for the six-month waiting period at retirement. For Money Match retirements, no service purchase is assumed. |
| <i>Unused Sick Leave for Tier 1/Tier 2</i> | Members covered by the provision allowing unused sick leave to be used to increase final average salary are assumed to receive an 8.25% increase in their final average salary. This adjustment is not applied to disability benefits. |
| <i>Vacation Pay for Tier 1</i> | Members eligible to receive a lump sum payment of unused vacation pay are assumed to receive a 2.8% increase in their final average salary. This adjustment is not applied to disability benefits. |
| <i>Retiree Healthcare Participation for Tier 1/Tier 2</i> | 42.5% of healthy retiring members and 20% of disabled retiring members are assumed to elect RHIA coverage. |
| <i>OPSRP Service</i> | All historical service is assumed to be attributable to service as police and fire. |
| <i>Benefit Commencement</i> | OPSRP disability retirement benefits are assumed to commence at the member's age 60. |
| <i>Worker's Compensation</i> | Tier 2 and OPSRP duty disability benefits are not assumed to be offset by Worker's Compensation. |

Assumptions/Methods Specific to City of Portland

The following assumptions and/or procedures were used in assessing the City of Portland's FPDR Two plan for ETOB testing:

| | |
|-----------------------------------|---|
| <i>Cost of Living Adjustments</i> | Assumed to be 2% per year for FPDR 2 members. |
| <i>Benefit Form</i> | Assumed 25 percent surviving spouse benefit formula for retirement benefits. |
| <i>Compensation</i> | The plan's compensation definition does not include overtime or bonuses. In order to value benefits under these plans, the PERS subject salary definition of compensation is reduced by 8 percent to develop an assumed compensation amount excluding overtime and bonuses. |

Actuarial Basis *(continued)*

Summary of Plan Provisions — PERS – Police and Fire

| | |
|--|--|
| <i>Plan Year</i> | January 1 to December 31 |
| <i>Plan Type</i> | Defined Benefit |
| <i>Membership</i> | All employees of public employers participating in this System who are in qualifying positions become members of the System after completing six months of service except those who are eligible for and have elected to participate in an optional retirement plan. Different benefit provisions of the plan apply based on date of hire. Tier 1 Hired prior to 1996 Tier 2 Hired after 1995 and before August 29, 2003 OPSRP Hired after August 28, 2003 and not a former Tier 1/Tier 2 member eligible to reestablish Tier 1/Tier 2 membership |
| <i>Employee Contributions</i> | Prior to 2004: 6% of subject salary 2004 and later: None – employee contributions are contributed to the Individual Account Program (IAP) |
| <i>Covered Salary</i> | Basis for retirement formula. Tier 1 Base pay, plus overtime and bonuses, plus employer pickup if applicable. Includes payment of unused vacation at retirement. Includes payment of accumulated sick leave at retirement if employer participates in the sick leave program. Tier 2 Base pay, plus overtime and bonuses, plus employer pickup if applicable. Excludes payment of unused vacation at retirement. Includes payment of accumulated sick leave at retirement if employer participates in the sick leave program. OPSRP Base pay, plus overtime up to an average amount, plus bonuses, plus employer pickup if applicable. Excludes payments of unused vacation or accumulated sick leave at retirement. |
| <i>Subject Salary</i> | Basis for employer contributions. Same as covered salary, except <ul style="list-style-type: none"> • Employer pick-up (if any) is excluded for Tier 1/Tier 2 • All overtime is included |
| <i>Final average salary</i> | Greater of highest average covered salary in three consecutive calendar years or one-third of total covered salary earned in the last 36 consecutive months of member coverage. |
| <i>Credited service</i> | Years and months from membership date (hire date for OPSRP). |
| <i>Service purchase</i> | Tier 1/ Tier 2 members may elect to purchase credited service for the six-month waiting period. |
| <i>Unit purchases</i> | Tier 1/ Tier 2 police & fire members may purchase 60-month annuity benefits (up to \$80 per month) that must be paid out by age 65 and cannot commence prior to the earliest retirement age. The amount purchased by the member is matched by the employer. In certain situations, such as termination of employment prior to retiring, or working beyond age 65, the employer's matching purchase is forfeited. |
| <i>Normal Retirement Date</i> | Tier 1 / Age 55 Tier 2 OPSRP Age 60, or age 53 with 25 years of service |
| <i>Normal Retirement Benefit – Tier 1/Tier 2</i> | The greatest of the Full Formula benefit, the Money Match benefit, or the Formula Plus Annuity benefit (only available to Members who made contributions before August 21, 1981). |

Actuarial Basis *(continued)*

Summary of Plan Provisions — PERS – Police and Fire *(continued)*

| | | |
|---|----------------------|--|
| | Full Formula | 2.00% multiplied by final average salary and years of credited service |
| | Money Match | The Member's account balance and a matching employer amount converted to an actuarially equivalent annuity. |
| | Formula Plus Annuity | The Member's account balance converted to an actuarially equivalent cash refund annuity, plus 1.35% multiplied by final average salary and years of credited service |
| <i>Normal Retirement Benefit - OPSRP</i> | | 1.80% multiplied by final average salary and years of credited service attributable to service as police and fire, plus 1.50% multiplied by final average pay and years of credited service attributable to other service. |
| <i>Early Retirement Eligibility</i> | Tier 1 / Tier 2 | Age 50, or any age with 30 years of service |
| | OPSRP | Age 50 with 5 years of service |
| <i>Early Retirement Benefit</i> | Tier 1 / Tier 2 | Normal Retirement Benefit actuarially reduced to early retirement age. No reduction if member has completed 25 years of service. |
| | OPSRP | Normal Retirement Benefit actuarially reduced to early retirement age. |
| <i>Normal Benefit Form</i> | Tier 1 / Tier 2 | Cash refund annuity with annual COLA up to 2% |
| | OPSRP | Single life annuity with annual COLA up to 2% |
| <i>Additional Post-retirement Death Benefit – Tier 1/Tier 2</i> | | Upon the death of a retired police officer or firefighter, the surviving spouse or dependent children under age 18 will receive a monthly benefit based on 25% of the cash refund retirement allowance due to police and fire service. This benefit is in addition to any other retirement benefits payable under the form elected by the member at retirement. |
| <i>Disability Eligibility</i> | Duty | Disablement occurring as a direct result of a job-related injury or illness, regardless of length of service. |
| | Non-Duty | Disablement occurring after ten years of service but prior to normal retirement eligibility. |
| <i>Disability Benefits</i> | Tier 1 / Tier 2 | Normal retirement benefit based on the service that would have been earned if the member had continued working to age 55, payable commencing immediately. Firefighters and police officers who qualify for duty disability may elect instead to receive a benefit of 50% of final average salary at the time of disablement. Includes annual COLA up to 2%. |
| | OPSRP | Pre-retirement disability benefit equal to 45% of salary during last full month of employment prior to disability, payable until normal retirement age. Includes annual COLA up to 2%. Disability retirement benefit beginning at normal retirement age, based on pre-disability final average salary adjusted to reflect cost-of-living increases from disability date to normal retirement date, and service that would have been earned if the member had continued working to normal retirement age. Includes annual COLA up to 2%. |

Actuarial Basis *(continued)*

Summary of Plan Provisions — PERS – Police and Fire *(continued)*

| | |
|--|---|
| <i>Retiree Healthcare – Medicare Supplement (RHIA) – Tier 1/Tier 2</i> | <p>A monthly contribution of up to \$60 per retiree is applied to PERS-sponsored Medicare supplemental insurance costs. Members must meet all of the following conditions:</p> <ul style="list-style-type: none"> ▪ Currently receiving a retirement allowance from the System ▪ Covered for eight years before retirement ▪ Enrolled in a PERS-sponsored health plan ▪ Enrolled in both Medicare Part A and Part B |
|--|---|

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| <i>Benefits Excluded from ETOB testing</i> | <ul style="list-style-type: none"> ▪ Withdrawal benefits ▪ Pre-retirement death benefits ▪ Increase to monthly retirement benefits under Senate Bill 656 or House Bill 3349 ▪ Prior service pension ▪ Variable Annuity Program ▪ RHIPA (pre-65 retiree healthcare for retired state employees) ▪ IAP (Individual Account Program) ▪ Account balances derived from pre-2004 member contributions. The value of accumulated member contributions is subtracted from the total value of PERS benefits to determine the employer-funded portion of the benefit used for testing. |
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Actuarial Basis *(continued)*

Summary of Plan Provisions — City of Portland

There are three tiers of members in the City's Fire and Police Disability and Retirement Fund (FPDR). There are no remaining FPDR One active members as of the testing date. FPDR Two members are those hired before January 1, 2007. FPDR Three members are those hired on or after January 1, 2007. FPDR Three members are enrolled in PERS as OPSRP members and receive retirement and disability benefits from PERS, with additional disability benefits paid from FPDR if the OPSRP-provided disability benefit is less than that provided under the FPDR definition. Because FPDR Three members by definition receive benefits equal to or better than those offered in PERS, only the FPDR Two program needs to be considered for purposes of the ETOB test.

Disability and Retirement Fund – FPDR Two

| <i>Plan Eligibility</i> | A City firefighter or police officer will become a Member of the Fund at the time of permanent appointment. | | | | | | | | | | | |
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| <i>Plan Type</i> | Defined Benefit | | | | | | | | | | | |
| <i>Member Contributions</i> | No Member contributions are required after July 1, 1990. Prior to that date, Member contributions of 7% of First Class Pay were required; accumulated Member contributions prior to July 1, 1990, remain on deposit in the Fund. | | | | | | | | | | | |
| <i>Normal Retirement</i> | <p>Eligibility — A Member is eligible for service retirement upon attaining the age of 50 and earning 25 or more Years of Service, or upon reaching age 55 with no service requirement.</p> <p>Benefit — The annual service retirement benefit is a percentage of the Member's Final Pay for each Year of Service up to 30 years. The percentage is based on the Member's choice of a survivor benefit when the Member applies for a retirement benefit, according to the table below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Percentage of Benefit Continuing to Surviving Spouse or Minor Children</th> <th style="text-align: center;">Percentage of Final Pay per Year of Service</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">100%</td> <td style="text-align: center;">2.2%</td> </tr> <tr> <td style="text-align: center;">75%</td> <td style="text-align: center;">2.4%</td> </tr> <tr> <td style="text-align: center;">50%</td> <td style="text-align: center;">2.6%</td> </tr> <tr> <td style="text-align: center;">25% (or no survivors)</td> <td style="text-align: center;">2.8%</td> </tr> </tbody> </table> <p>Benefit Form — The benefit begins at retirement and continues for the Member's life, with the selected percentage continuing to the Member's surviving spouse or minor children after the Member's death.</p> <p>Benefits will be increased in step with the statutory and ad hoc cost of living increases granted to PERS retired members.</p> | | Percentage of Benefit Continuing to Surviving Spouse or Minor Children | Percentage of Final Pay per Year of Service | 100% | 2.2% | 75% | 2.4% | 50% | 2.6% | 25% (or no survivors) | 2.8% |
| Percentage of Benefit Continuing to Surviving Spouse or Minor Children | Percentage of Final Pay per Year of Service | | | | | | | | | | | |
| 100% | 2.2% | | | | | | | | | | | |
| 75% | 2.4% | | | | | | | | | | | |
| 50% | 2.6% | | | | | | | | | | | |
| 25% (or no survivors) | 2.8% | | | | | | | | | | | |

Actuarial Basis *(continued)*

Summary of Plan Provisions — City of Portland *(continued)*

Service-Connected or Occupational Disability Benefit

Eligibility — A Member is eligible for a service disability benefit upon sustaining an injury or illness in the performance of duty that prevents the Member from engaging in the duties of a firefighter or police officer.

A Member is eligible for an occupational disability benefit if the Member is unable to perform the duties of a firefighter or police officer due to heart disease, hernia of the abdominal cavity or diaphragm, AIDS, ARC, tuberculosis, hepatitis B, or pneumonia. Five Years of Service is required to qualify for occupational disability due to heart disease.

Benefit — During the first year of disability, the benefit is 75% of the Member's Base Pay, reduced by 50% of any wages earned in other employment while disabled.

If the Member is capable of Substantial Gainful Employment, then after one year of disability and after the Member becomes Medically Stationary, but before four years of disability have elapsed, the Member's benefit will change to 50% of Base Pay minus 25% of wages earned in other employment.

Under any circumstances, a minimum benefit of 25% of Base Pay for member's position at disability will continue as long as the disability continues.

At Disability Retirement Age the above benefits stop; the Member is then entitled to a disability retirement benefit computed using his Base Pay and Years of Service at his Disability Retirement Age.

Benefit Form — The disability benefit begins at disability and continues until the Member's recovery, death, or Disability Retirement Age, whichever occurs first.

Disability benefits will be increased in step with the Base Pay of the position held by the Member at disability.

The disability retirement benefit begins at Disability Retirement Age and continues for the Member's life, with the selected percentage continuing to the Member's surviving spouse or minor children after the Member's death.

Disability retirement benefits will be increased in step with the statutory and ad hoc cost of living increases granted to PERS retired members.

Actuarial Basis *(continued)*

Summary of Plan Provisions — City of Portland *(continued)*

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| <i>Nonservice-Connected Disability Benefit</i> | <p>Eligibility — A Member is eligible for a nonservice disability benefit if the Member has ten Years of Service and sustains an injury or illness other than in the performance of duty that prevents the Member from engaging in duties as a firefighter or police officer.</p> <p>Benefit — The benefit is 50% of the Member's Base Pay, reduced by 50% of any wages earned in other employment while disabled, less any non-service disability benefits paid.</p> <p>At Disability Retirement Age the above benefits stop; the Member is then entitled to a service retirement benefit computed using his Base Pay and Years of Service at his Disability Retirement Age.</p> <p>Benefit Form — The disability benefit begins at disability and continues until the Member's recovery, death, or Disability Retirement Age, whichever occurs first. Disability benefits will be increased in step with the Base Pay of the position held by the Member at disability.</p> <p>The disability retirement benefit begins at Disability Retirement Age and continues for the Member's life, with the selected percentage continuing to the Member's surviving spouse or minor children after the Member's death.</p> <p>Disability retirement benefits will be increased in step with the statutory and ad hoc cost of living increases granted to PERS retired members.</p> |
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Excluded Benefits

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| <i>Benefits Excluded from ETOB testing</i> | <ul style="list-style-type: none"> ▪ Withdrawal benefits ▪ Pre-retirement death benefits (including life insurance) ▪ Increase to monthly retirement benefits under Senate Bill 656 or House Bill 3349 ▪ Short-term disability benefits ▪ Medical, dental, and vision benefits for active employees ▪ Employee-funded benefits ▪ Hospital and medical expenses related to Service-Connected or Occupational Disability |
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Definitions

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| <i>Base Pay</i> | A Member's Base Pay is the base pay in the Member's position, including premium pay, but excluding overtime and excluding any payments for unused vacation or sick leave, limited by 401(a)(17). |
| <i>Disability Retirement Age</i> | A Member's Disability Retirement Age is the earlier of Social Security normal retirement age and the age at which the Member has earned 30 Years of Service. |

Actuarial Basis *(continued)*

Summary of Plan Provisions — City of Portland *(continued)*

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| <i>Final Pay</i> | <p>A Member's Final Pay is the Member's highest Base Pay during anyone of the three consecutive twelve-month periods preceding the month in which the Member retires, dies, becomes disabled, or terminates employment.</p> <p>If the Member's benefit is deferred due to disability or employment covered by the Oregon Public Employees' Retirement System (PERS), the Member's Final Pay will be increased during the deferral period with increases in the Base Pay of the Member's position at termination.</p> |
| <i>Medically Stationary</i> | <p>A disabled Member is judged to be Medically Stationary when the Member's prognosis is clear and the Member's medical condition has stabilized and is unlikely to change.</p> |
| <i>Spouse</i> | <p>A Member's spouse must have been designated by marriage or by a registered same-sex domestic partnership for at least twelve months.</p> |
| <i>Substantial Gainful Activity</i> | <p>A disabled Member is capable of Substantial Gainful Activity if the Board determines that the Member is capable of being employed with earnings of at least one-third of the Member's Base Pay.</p> |
| <i>Year of Service</i> | <p>A Member will be credited with one twelfth of a year of service for each completed month of active employment as a City firefighter or police officer. (Max of 30 years)</p> <p>In addition, a disabled Member will earn a portion of a Year of Service for each year during which the Member receives disability benefits. The portion of a Year of Service earned will equal the Member's disability pension during the year divided by 75% of current base pay for position held at disablement (the maximum disability benefit).</p> |

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