

December 29, 2006

Actuarial Valuation Report December 31, 2005

Oregon Public Service Retirement Plan (OPSRP)

MERCER

Human Resource Consulting

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Executive Summary

Mercer Human Resource Consulting has prepared this report for **the Oregon Public Employees Retirement System** to:

- Present results of the first valuation of the Oregon Public Service Retirement Plan (OPSRP) portion of the Oregon Public Employees Retirement System as of December 31, 2005
- Provide OPSRP contribution rates as of July 1, 2007
- Provide the funded status of OPSRP as of December 31, 2005
- Provide reporting information for financial statements, government agencies and other interested parties, pursuant to GASB requirements with respect to OPSRP.

This valuation report does not cover Tier 1/Tier 2 benefits, retiree medical benefits, or the Individual Account Program (IAP).

Employer Contribution Rates

This report develops the OPSRP employer contribution rates that will be effective on July 1, 2007. Milliman USA developed the initial OPSRP employer contribution rates. The table below compares the initial rates to the rates that will become effective July 1, 2007.

| Membership Group | July 1, 2007 | Initial |
|------------------|--------------|---------|
| General Service | 5.82% | 8.04% |
| Police & Fire | 9.09% | 11.65% |
| Weighted Average | 6.03% | 8.44% |

Individual employers pay the rate from the table above that is applicable to each of their employees. In addition, rates (other than normal cost rates) for Tier 1/Tier 2 members are also paid on OPSRP payroll, increasing the rate paid on OPSRP payroll by an average of 10.5 percent of payroll.

Since the initial contribution rates were not based on a valuation of OPSRP member data, it is difficult in this valuation to analyze experience and explain the change in contribution rates. As OPSRP matures, we expect the normal cost rate shown above to gradually increase to an ultimate rate of approximately 7.3 percent.

Executive Summary

Asset Changes

Assets for OPSRP are very small compared to Tier 1/Tier 2, but are growing. Contributions in 2004 were low reflecting, among other things, that no contributions are collected until an employee completes the 6-month waiting period. With low contributions and relatively high start-up expenses, OPSRP assets were only \$5.4 million at the beginning of 2005. As shown in the table below, during 2005, assets increased significantly almost exclusively due to employer contributions.

| OPSRP | Amount | Percentage of 12/31/04 Market Value |
|---------------------------------|--------|---|
| Market Value, December 31, 2004 | \$5.4 | |
| Contributions | 49.3 | 913.0% |
| Investment Income | 3.6 | 66.7% |
| Benefit Payments | (0.0) | (0.0%) |
| Administrative Expenses | (3.3) | (61.1%) |
| Market Value, December 31, 2005 | \$55.0 | 1018.5% |

Amounts in millions

Full-Time Equivalency

In OPSRP, part-time employees earn a partial year of service, and employers report the number of hours required to be considered full-time (for most employers 2000 hours are required). For purposes of this valuation, any member reported with at least 80 percent of the hours required to be full-time was considered full time.

Approximately 22 percent of active members were reported with between 80 percent and 100 percent of the hours needed to be considered full-time. The table below shows the percentage of employees reported with less than 80 percent of the hours needed to be considered full-time.

| Employee Group | Percentage Part-Time |
|-----------------------|-------------------------|
| School Districts | 43% |
| Other General Service | 25% |
| Police & Fire | 11% |
| Total | 31% |

Executive Summary

Principal Valuation Results

A summary of principal valuation results from the current valuation follows. Since this is the first OPSRP valuation, there is no comparison to prior valuation results. OPSRP valuation payroll is the amount projected to be paid in 2006 based on actual 2005 pay and the plan's actuarial assumptions. Combined valuation payroll includes Tier 1/Tier 2 payroll and OPSRP payroll.

| OPSRP | Actuarial Valuation as of | |
|--------------------------------------|---------------------------|-------------------|
| | December 31, 2005 | December 31, 2004 |
| Actuarial accrued liability | \$ 53,780,194 | N/A |
| Actuarial asset value | \$ 54,997,013 | N/A |
| Unfunded actuarial accrued liability | \$ (1,216,819) | N/A |
| Funded status | 102.3% | N/A |
| Combined valuation payroll | \$ 6,791,890,811 | N/A |
| UAL as a percentage of payroll | 0.0% | N/A |
| Normal cost | \$ 43,066,857 | N/A |
| OPSRP valuation payroll | \$ 680,697,310 | N/A |
| Normal cost rate | 6.33% | N/A |

Data Summary

| OPSRP Member Census | December 31, 2005 | | |
|--|-------------------|---------------|----------|
| | General Service | Police & Fire | Total |
| Active Members | | | |
| Count | 22,771 | 1,212 | 23,983 |
| Average Age | 39.5 | 34.8 | 39.3 |
| Average Total Service | 1.3 | 1.4 | 1.3 |
| Average 2005 Pay | \$25,975 | \$36,946 | \$26,530 |
| Dormant Members | | | |
| Count | | | 364 |
| Average Monthly Deferred Benefit | | | \$28 |
| Retired Members and Beneficiaries | | | |
| Count | | | 0 |

Certification

We have prepared an actuarial valuation of the Oregon Public Service Retirement Plan (OPSRP) as of December 31, 2005. The results of the valuation are set forth in this report, which reflects legislation adopted by December 31, 2005.

The valuation is based on financial and membership data furnished by PERS and summarized in this report. The PERS' actuary would not customarily verify this data. We have reviewed the information for internal consistency and reasonableness and have no reason to doubt its substantial accuracy.

All costs, liabilities and other factors under the OPSRP were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current State statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions set by the Board are a reasonable estimate of anticipated experience. This report fully and fairly discloses the actuarial position of OPSRP on an ongoing basis.

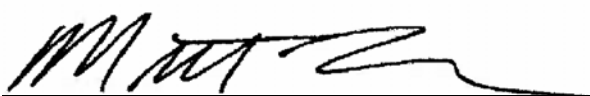
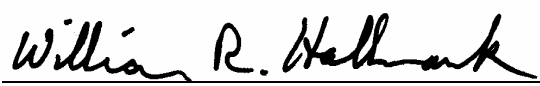
The accounting calculations reported herein are consistent with our understanding of the provisions of Government Account Standards Board (GASB) Statement Number 25.

Since this is the first valuation of OPSRP, there have been no changes in plan provisions, actuarial methods and actuarial assumptions since the last valuation.

This report has been prepared exclusively for the Oregon Public Employees Retirement System to provide OPSRP contribution rate information and to provide accounting information required under GASB 25. Mercer Human Resource Consulting is not responsible for consequences arising from the use of this report for any other purposes.

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.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

| | |
|--|-------------------|
|  | December 29, 2006 |
| Matthew R. Larrabee, FSA, EA, MAAA Principal | Date |
|  | December 29, 2006 |
| William R. Hallmark, ASA, EA, MAAA Principal | Date |
| Mercer Human Resource Consulting 111 SW Columbia Avenue, Suite 500 Portland, Oregon 97201-5839 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.

Section 1: Plan Assets

This section summarizes the current OPSRP assets. The table below summarizes the market value of assets, as provided by PERS, for the current and prior years.

| Statement of Plan Net Assets | December 31, 2005 | | December 31, 2004 | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| 1. Cash and short-term investments | \$ | 8,412,751 | \$ | 9,341,874 |
| 2. Receivables | | 1,821,187 | | 812,636 |
| 3. Investments at fair value | | 48,464,683 | | 7,316,417 |
| 4. Other | | 6,728,385 | | 6,603,373 |
| 5. Total assets | \$ | 65,427,006 | \$ | 24,074,299 |
| 6. Liabilities | | (10,429,993) | | (18,647,825) |
| 7. Net assets held in trust | \$ | 54,997,013 | \$ | 5,426,475 |

OPSRP valuation assets include all assets shown above. Information on other reserves is included in the Tier 1/Tier 2 valuation report.

The table below summarizes the changes in net assets as provided by PERS.

| Reconciliation of Assets | December 31, 2005 | | December 31, 2004 | |
|---|-------------------|--------------------|-------------------|--------------------|
| Additions | | | | |
| 1. Contributions | | | | |
| a. Employer | \$ | 49,291,891 | \$ | 10,788,834 |
| b. Employee | | - | | - |
| c. Total | \$ | 49,291,891 | \$ | 10,788,834 |
| 2. Net investment income | | 3,619,584 | | 535,492 |
| 3. Other | | 55,697 | | 44,551 |
| 4. Total additions | \$ | 52,967,172 | \$ | 11,368,876 |
| Deductions | | | | |
| 5. Retirement and survivor benefits | | - | | - |
| 6. Death Benefits | | - | | - |
| 7. Administrative expenses | | (3,396,634) | | (5,677,828) |
| 8. Total deductions | \$ | (3,396,634) | \$ | (5,677,828) |
| 9. Net change | \$ | 49,570,538 | \$ | 5,691,048 |
| 10. Net assets held in trust for pension benefits | | | | |
| a. Beginning of year | \$ | 5,426,475 | \$ | (264,574) |
| b. End of year | \$ | 54,997,013 | \$ | 5,426,475 |

Total assets have grown tenfold in the last year reflecting contributions and investment earnings for a new program.

Section 2: Liabilities

Normal Cost

The normal cost represents the value of benefits assigned to the next year of service by the actuarial cost method. If all actuarial assumptions are met, the normal cost represents the amount that would need to be contributed each year to fund plan benefits.

A summary of the normal cost by decrement is shown below for OPSRP.

| Normal Cost | December 31, 2005 | | |
|--|----------------------|---------------------|----------------------|
| | General Service | Police & Fire | Total |
| Pre-retirement Disability | | | |
| Duty | \$ 203,614 | \$ 126,918 | \$ 330,532 |
| Non-Duty | 1,861,933 | 140,799 | 2,002,732 |
| Total Pre-Retirement Disability | \$ 2,065,547 | \$ 267,717 | \$ 2,333,264 |
| Other Benefits | | | |
| Service Retirement | \$ 25,510,104 | \$ 3,338,293 | \$ 28,848,397 |
| Vested Benefits | 3,300,166 | 264,981 | 3,565,147 |
| Death | 444,061 | 38,069 | 482,130 |
| Duty Disability Retirement | 98,793 | 69,466 | 168,259 |
| Non-Duty Disability Retirement | 874,545 | 95,115 | 969,660 |
| Total Other Benefits | \$ 30,227,669 | \$ 3,805,924 | \$ 34,033,593 |
| Assumed Administrative Expenses | 6,224,086 | 475,914 | 6,700,000 |
| Total Normal Cost | \$ 38,517,302 | \$ 4,549,555 | \$ 43,066,857 |

Since this valuation is the first for OPSRP, prior year results are not available.

Section 2: Liabilities

Actuarial Accrued Liability

The actuarial accrued liability represents the value of benefits attributed to prior years of service by the actuarial cost method. A summary of the actuarial accrued liability by decrement is shown below for OPSRP.

| Summary of Actuarial Accrued Liability | December 31, 2005 | | |
|--|----------------------|---------------------|----------------------|
| | General Service | Police & Fire | Total |
| Active Members | | | |
| Pre-retirement Duty Disability | \$ 388,840 | \$ 227,245 | \$ 616,085 |
| Pre-retirement Non-Duty Disability | 2,894,841 | 212,269 | 3,107,110 |
| Service Retirement | 37,044,851 | 4,786,518 | 41,831,369 |
| Vested Benefits | 4,898,494 | 394,546 | 5,293,040 |
| Death | 642,898 | 54,544 | 697,442 |
| Duty Disability Retirement | 172,553 | 113,928 | 286,481 |
| Non-Duty Disability Retirement | 1,303,893 | 138,020 | 1,441,913 |
| Total Active Members | \$ 47,346,370 | \$ 5,927,070 | \$ 53,273,440 |
| Dormant Members | | | 506,754 |
| Retired Members and Beneficiaries | | | - |
| Total Actuarial Accrued Liability | | \$ | 53,780,194 |

Because this valuation is the first for OPSRP, there is no comparison to the prior year and no gain or loss analysis.

Section 3: Unfunded Accrued Liability (UAL)

The Unfunded Accrued Liability (UAL) represents the difference between the Actuarial Accrued Liability and the valuation assets. The UAL is amortized over combined valuation payroll. The table below shows the OPSRP UAL, funded status, and UAL as a percentage of combined valuation payroll.

| Unfunded Accrued Liability | December 31, 2005 | |
|--|-------------------|---------------|
| 1. Actuarial accrued liability | \$ | 53,780,194 |
| 2. Actuarial value of assets | \$ | 54,997,013 |
| 3. Unfunded accrued liability | \$ | (1,216,819) |
| 4. Funded percentage (2. ÷ 1.) | | 102.3% |
| 5. Combined valuation payroll | \$ | 6,791,890,811 |
| 6. Unfunded accrued liability as % of combined valuation payroll | | (0.02%) |

Section 4: Contribution Rate Development

Normal Cost

The normal cost represents the value of benefits assigned to the next year of service by the actuarial cost method. If all actuarial assumptions are met, the normal cost represents the amount that would need to be contributed each year to fund the benefits.

The table below shows the development of the OPSRP normal cost rates.

| Development of Normal Cost Rate | December 31, 2005 | | |
|------------------------------------|----------------------|---------------------|----------------------|
| | General Service | Police & Fire | Average Rate |
| Normal Cost | | | |
| Pre-retirement Disability Benefits | \$ 2,065,547 | \$ 267,717 | \$ 2,333,264 |
| All Other Benefits | 30,227,669 | 3,805,924 | 34,033,593 |
| Assumed Administrative Expenses | 6,224,086 | 475,914 | 6,700,000 |
| Total Normal Cost | \$ 38,517,302 | \$ 4,549,555 | \$ 43,066,857 |
| OPSRP Valuation Payroll | \$ 632,346,061 | \$ 48,351,249 | \$ 680,697,310 |
| Normal Cost Rate | | | |
| Pre-retirement Disability Benefits | 0.33% | 0.55% | 0.34% |
| All Other Benefits | 4.78% | 7.87% | 5.00% |
| Assumed Administrative Expenses | 0.98% | 0.98% | 0.98% |
| Total Normal Cost | 6.09% | 9.41% | 6.33% |

Unfunded Accrued Liability

The OPSRP UAL rate is determined by amortizing the unfunded actuarial accrued liability over 16 years as a level percentage of combined valuation payroll.

| Development of UAL Rate | December 31, 2005 |
|--------------------------------|-------------------|
| 1. UAL | \$ (1,216,819) |
| 2. Combined valuation payroll | \$ 6,791,890,811 |
| 3. 16-Year amortization factor | 11.825 |
| 4. UAL rate | 0.00% |

Section 4: Contribution Rate Development

Calculated Employer Contribution Rates With 18-Month Delay

The following table summarizes the OPSRP contribution rate for general service and police & fire members as of the valuation date and prior to application of the collar. Contribution rates as of the valuation date are adjusted for the 18-month delay between the valuation date (December 31, 2005) and the effective date of the new contribution rates (July 1, 2007). The adjustment is made such that the present value of expected contributions for the 16-year period beginning on the valuation date is the same as if the rate calculated on the valuation date was effective immediately on that date. That is, the present value of the current contribution rate for 1½ years plus the adjusted rate for the following 14½ years is equal to the present value of the rate calculated on December 31, 2005 for 16 years.

The normal cost rates apply to OPSRP payroll only, but the UAL rate is applied to combined valuation payroll. These rates, after the application of the collar, are combined with each employer's Tier 1/Tier 2 rates (other than Tier 1/Tier 2 normal cost rate) to determine each employer's contribution rate on OPSRP payroll.

| Calculated OPSRP Contribution Rates | General | | Average Rate |
|--|--------------|---------------|--------------|
| | Service | Police & Fire | |
| December 31, 2005 | | | |
| Total normal cost rate | 6.09% | 9.41% | 6.33% |
| Total UAL rate | 0.00% | 0.00% | 0.00% |
| Total OPSRP contribution rate | 6.09% | 9.41% | 6.33% |
| Effect of 18-month delay | (0.27%) | (0.32%) | (0.30%) |
| July 1, 2007 contribution rate, before collar | 5.82% | 9.09% | 6.03% |

Section 4: Contribution Rate Development

Application of Rate Collar

The rate collar restricts the average OPSRP contribution rate so it cannot change by more than the greater of 3 percentage points or 20 percent from the current average OPSRP contribution rate. However, if the funded percentage is below 80 percent or above 120 percent, the size of the collar is doubled. All collar calculations are performed based on the weighted average OPSRP contribution rate, and any adjustment due to the collar is applied to the OPSRP UAL rate.

The table below shows the calculation of and any adjustment for the rate collar.

| OPSRP Contribution Rates | General Service | Police & Fire | Average Rate |
|--|-----------------|---------------|--------------|
| 1. 7/1/2005 contribution rate | | | 8.44% |
| 2. Size of collar | | | |
| a. Preliminary size of rate collar (<i>Maximum of 3% or 20% of 1.</i>) | | | 3.00% |
| b. Funded percentage | | | 102.3% |
| c. Size of rate collar (<i>If b. < 80% or b. > 120%, 2 x a., otherwise a.</i>) | | | 3.00% |
| 3. 7/1/2007 Minimum contribution rate (<i>1. - 2.c.</i>) | | | 5.44% |
| 4. 7/1/2007 Maximum contribution rate (<i>1. + 2.c.</i>) | | | 11.44% |
| 5. Contribution rate, 7/1/2007 before collar | 5.82% | 9.09% | 6.03% |
| 6. Impact of collar | 0.00% | 0.00% | 0.00% |
| 7. 7/1/2007 Contribution rate, after collar (5. + 6.) | 5.82% | 9.09% | 6.03% |

Individual employers pay the rate from the table above that is applicable to each of their employees. In addition, rates (other than normal cost rates) for Tier 1/Tier 2 members are also paid on OPSRP payroll, increasing the rate paid on OPSRP payroll by an average of 10.5 percentage points.

Section 5: Accounting/CAFR Exhibits

The following information has been prepared and provided to PERS for inclusion in the Actuarial Section of the 2006 Comprehensive Annual Financial Report (CAFR):

- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Schedule of Funding Progress
- Solvency Test

Actuarial Schedules

Schedule of Active Member Valuation Data

| Valuation Date | Count | Annual Payroll in Thousands | Average Annual Pay | Annualized % increase Average |
|----------------|--------|-----------------------------|--------------------|-------------------------------|
| 12/31/2005 | 23,983 | \$680,697 | \$28,382 | N/A |

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

| Year Ended | Added to Rolls | | Removed from Rolls | | Rolls - End of Year | | % Increase in Annual Allowances | Average Annual Allowances |
|------------|----------------|-------------------|--------------------|-------------------|---------------------|-------------------|---------------------------------|---------------------------|
| | Number | Annual Allowances | Number | Annual Allowances | Number | Annual Allowances | | |
| 12/31/2005 | 0 | \$ - | 0 | \$ - | 0 | \$ - | N/A | N/A |

Annual Allowances are shown in thousands

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------|-------------------------------|---------------------------------------|-----------------------------|----------------------|---------------------|---|
| 12/31/2005 | \$54,997,013 | \$53,780,194 | (\$1,216,819) | 102.3% | \$680,697,310 | (0.2%) |

Section 5: Accounting/CAFR Exhibits

Actuarial Schedules (*continued*)

Solvency Test

| Valuation Date | Actuarial Accrued Liability | | | Valuation Assets | Portion of Actuarial Liabilities Covered by Assets | | |
|-------------------|--|--|-----------------------------|---------------------|---|------------|------------|
| | Active Member Contributions (1) | Retired | | | (1) | (2) | (3) |
| | | Members and Beneficiaries (2) | Other Members (3) | | | | |
| 12/31/2005 | \$ 0 | \$ 0 | \$ 53,780,194 | \$ 54,997,013 | 100% | 100% | 102% |

Section 6: Data

This valuation is based upon the membership of the System as of December 31, 2005. This section summarizes the OPSRP membership data reported by PERS.

Active Member Data

Census Data

Active census counts by age and membership category are shown below.

Active Member Census

| Age | General | | Total |
|------------------------|---------------|---------------|---------------|
| | Service | Police & Fire | |
| Under 20 | 79 | | 79 |
| 20 - 24 | 1,481 | 130 | 1,611 |
| 25 - 29 | 4,114 | 333 | 4,447 |
| 30 - 34 | 3,148 | 257 | 3,405 |
| 35 - 39 | 3,089 | 157 | 3,246 |
| 40 - 44 | 2,992 | 121 | 3,113 |
| 45 - 49 | 2,725 | 80 | 2,805 |
| 50 - 54 | 2,456 | 65 | 2,521 |
| 55 - 59 | 1,807 | 53 | 1,860 |
| 60 - 64 | 637 | 12 | 649 |
| 65 - 69 | 167 | 4 | 171 |
| 70 - 74 | 60 | | 60 |
| 75+ | 16 | | 16 |
| Total | 22,771 | 1,212 | 23,983 |
| Average Age | 39.54 | 34.81 | 39.30 |
| Average Service | 1.25 | 1.41 | 1.26 |

Section 6: Data

Active Member Data *(continued)*

Full Time Equivalence Data

OPSRP employers define the number of hours required for full-time equivalence (FTE) based on the employment position of the member. Service is credited based upon the percentage of FTE worked, and for final average pay calculations, pay is adjusted to an annual FTE basis. The following tables summarize the FTE hours required for each member and the percentage of the FTE hours they actually worked in 2005.

General Service Members (excluding School District Members)

| FTE hours | Percentage of FTE Hours Worked | | | | Total |
|---------------|--------------------------------|--------------|--------------|--------------|---------------|
| | Less than 50% | 50% - 79% | 80% - 99% | 100% or more | |
| 1,000 - 1,099 | 0 | 3 | 6 | 8 | 17 |
| 1,100 - 1,199 | 0 | 0 | 0 | 1 | 1 |
| 1,200 - 1,299 | 4 | 47 | 18 | 49 | 118 |
| 1,300 - 1,399 | 3 | 15 | 9 | 40 | 67 |
| 1,400 - 1,499 | 19 | 45 | 34 | 50 | 148 |
| 1,500 - 1,599 | 45 | 99 | 46 | 193 | 383 |
| 1,600 - 1,699 | 0 | 2 | 1 | 7 | 10 |
| 1,700 - 1,799 | 3 | 1 | 1 | 3 | 8 |
| 1,800 - 1,899 | 0 | 0 | 0 | 2 | 2 |
| 1,900 - 1,999 | 14 | 11 | 7 | 11 | 43 |
| 2,000 | 1,088 | 1,794 | 2,880 | 6,307 | 12,069 |
| Total | 1,176 | 2,017 | 3,002 | 6,671 | 12,866 |

School District Members

| FTE hours | Percentage of FTE Hours Worked | | | | Total |
|---------------|--------------------------------|--------------|--------------|--------------|--------------|
| | Less than 50% | 50% - 79% | 80% - 99% | 100% or more | |
| 1,000 - 1,099 | 0 | 488 | 415 | 978 | 1,881 |
| 1,100 - 1,199 | 0 | 79 | 63 | 134 | 276 |
| 1,200 - 1,299 | 1 | 34 | 47 | 71 | 153 |
| 1,300 - 1,399 | 9 | 66 | 58 | 87 | 220 |
| 1,400 - 1,499 | 141 | 631 | 414 | 421 | 1,607 |
| 1,500 - 1,599 | 294 | 870 | 761 | 1,299 | 3,224 |
| 1,600 - 1,699 | 9 | 35 | 45 | 60 | 149 |
| 1,700 - 1,799 | 6 | 17 | 16 | 37 | 76 |
| 1,800 - 1,899 | 6 | 8 | 20 | 28 | 62 |
| 1,900 - 1,999 | 7 | 16 | 19 | 20 | 62 |
| 2,000 | 563 | 930 | 319 | 383 | 2,195 |
| Total | 1,036 | 3,174 | 2,177 | 3,518 | 9,905 |

Section 6: Data

Active Member Data *(continued)*Full Time Equivalence Data *(continued)*

Police & Fire Members

| FTE hours | Percentage of FTE Hours Worked | | | | Total |
|---------------|--------------------------------|-----------|------------|--------------|--------------|
| | Less than 50% | 50% - 79% | 80% - 99% | 100% or more | |
| 1,000 - 1,099 | 0 | 0 | 0 | 0 | 0 |
| 1,100 - 1,199 | 0 | 0 | 0 | 0 | 0 |
| 1,200 - 1,299 | 0 | 0 | 0 | 0 | 0 |
| 1,300 - 1,399 | 0 | 0 | 0 | 0 | 0 |
| 1,400 - 1,499 | 0 | 0 | 0 | 0 | 0 |
| 1,500 - 1,599 | 0 | 0 | 0 | 0 | 0 |
| 1,600 - 1,699 | 0 | 0 | 0 | 0 | 0 |
| 1,700 - 1,799 | 0 | 0 | 0 | 0 | 0 |
| 1,800 - 1,899 | 0 | 0 | 0 | 0 | 0 |
| 1,900 - 1,999 | 0 | 0 | 0 | 0 | 0 |
| 2,000 | 42 | 87 | 196 | 887 | 1,212 |
| Total | 42 | 87 | 196 | 887 | 1,212 |

Total OPSRP Members

| FTE hours | Percentage of FTE Hours Worked | | | | Total |
|---------------|--------------------------------|--------------|--------------|---------------|---------------|
| | Less than 50% | 50% - 79% | 80% - 99% | 100% or more | |
| 1,000 - 1,099 | 0 | 491 | 421 | 986 | 1,898 |
| 1,100 - 1,199 | 0 | 79 | 63 | 135 | 277 |
| 1,200 - 1,299 | 5 | 81 | 65 | 120 | 271 |
| 1,300 - 1,399 | 12 | 81 | 67 | 127 | 287 |
| 1,400 - 1,499 | 160 | 676 | 448 | 471 | 1,755 |
| 1,500 - 1,599 | 339 | 969 | 807 | 1,492 | 3,607 |
| 1,600 - 1,699 | 9 | 37 | 46 | 67 | 159 |
| 1,700 - 1,799 | 9 | 18 | 17 | 40 | 84 |
| 1,800 - 1,899 | 6 | 8 | 20 | 30 | 64 |
| 1,900 - 1,999 | 21 | 27 | 26 | 31 | 105 |
| 2,000 | 1,693 | 2,811 | 3,395 | 7,577 | 15,476 |
| Total | 2,254 | 5,278 | 5,375 | 11,076 | 23,983 |

Section 6: Data

Active Member Data *(continued)*

Summary of Full-Time Employee Hours and Part-Time Status

| | General Service | School District | Police & Fire | Total |
|---|--------------------|--------------------|------------------|-------|
| Percentage with FTE less than 2,000 hours | 6% | 78% | 0% | 35% |
| Percentage with FTE equal to 2,000 hours | 94% | 22% | 100% | 65% |
| Percentage working less than 80% of FTE | 25% | 43% | 11% | 31% |
| Percentage working 80% or more of FTE | 75% | 57% | 89% | 69% |

Payroll Data

Valuation payroll is the amount projected to be paid in 2006, based on actual 2005 pay and the plan's actuarial assumptions. It is summarized by category below.

| System-Wide Valuation Payroll | General Service | Police & Fire | Total |
|-----------------------------------|-----------------|---------------|-------------------------|
| OPSRP Valuation Payroll | \$ 632,346,061 | \$ 48,351,249 | \$ 680,697,310 |
| Tier 1/Tier 2 Valuation Payroll | | | \$ 6,111,193,501 |
| Combined Valuation Payroll | | | \$ 6,791,890,811 |

The following table shows the average annual actual pay earned in 2005 for active members on December 31, 2005 by age and membership category.

Average Active Member Pay

| Age | General Service | Police & Fire | Total |
|--------------|--------------------|-----------------|-----------------|
| Under 20 | \$9,333 | \$0 | \$9,333 |
| 20 - 24 | 17,570 | 31,519 | 18,696 |
| 25 - 29 | 25,114 | 38,038 | 26,082 |
| 30 - 34 | 28,041 | 37,479 | 28,753 |
| 35 - 39 | 27,004 | 38,321 | 27,552 |
| 40 - 44 | 25,820 | 35,554 | 26,199 |
| 45 - 49 | 25,867 | 36,989 | 26,185 |
| 50 - 54 | 27,449 | 41,199 | 27,803 |
| 55 - 59 | 29,280 | 34,738 | 29,435 |
| 60 - 64 | 27,369 | 40,064 | 27,604 |
| 65 - 69 | 18,671 | 26,333 | 18,850 |
| 70 - 74 | 15,049 | 0 | 15,049 |
| 75+ | 11,899 | 0 | 11,899 |
| Total | \$25,975 | \$36,946 | \$26,530 |

Section 6: Data

Dormant Member Data

| Age | Members With Deferred Benefits | |
|--------------|--------------------------------|-------------------------|
| | No. | Deferred Annual Benefit |
| Under 20 | 0 | \$ 0 |
| 20-24 | 5 | 404 |
| 25-29 | 17 | 4,616 |
| 30-34 | 32 | 14,338 |
| 35-39 | 31 | 11,356 |
| 40-44 | 44 | 11,990 |
| 45-49 | 52 | 17,311 |
| 50-54 | 60 | 19,628 |
| 55-59 | 63 | 25,656 |
| 60-64 | 17 | 7,117 |
| 65-69 | 21 | 6,365 |
| 70-74 | 14 | 2,596 |
| 75 or higher | 8 | 1,347 |
| Total | 364 | \$ 122,724 |

Data for Members in Pay Status

Members in Pay Status — Annual Benefits

| Age | Retirees | | Joint Annuitants & Surviving Spouses | | Disabled Members | | Total in Pay Status | |
|--------------|----------|-------------|--------------------------------------|-------------|------------------|-------------|---------------------|-------------|
| | No. | Benefit | No. | Benefit | No. | Benefit | No. | Benefit |
| Under 50 | 0 | \$ - | 0 | \$ - | 0 | \$ - | 0 | \$ - |
| 50-54 | 0 | - | 0 | - | 0 | - | 0 | - |
| 55-59 | 0 | - | 0 | - | 0 | - | 0 | - |
| 60-64 | 0 | - | 0 | - | 0 | - | 0 | - |
| 65-69 | 0 | - | 0 | - | 0 | - | 0 | - |
| 70-74 | 0 | - | 0 | - | 0 | - | 0 | - |
| 75-79 | 0 | - | 0 | - | 0 | - | 0 | - |
| 80-84 | 0 | - | 0 | - | 0 | - | 0 | - |
| 85-89 | 0 | - | 0 | - | 0 | - | 0 | - |
| 90 or higher | 0 | - | 0 | - | 0 | - | 0 | - |
| Total | 0 | \$ - | 0 | \$ - | 0 | \$ - | 0 | \$ - |

Section 7: Methods and Assumptions

The Board adopted the following actuarial methods and valuation procedures for the December 31, 2005, actuarial valuation of OPSRP.

| | |
|--|---|
| <i>Actuarial Cost Method</i> | Projected Unit Credit. Under the Projected Unit Credit cost method, the objective is to fund each member’s benefit under the plan as it accrues, taking into consideration expected future compensation increases. |
| <i>Unfunded Actuarial Liability (UAL) Amortization</i> | Gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll (Tier 1/ Tier 2 plus OPSRP payroll) over 16 years from the valuation in which they are first recognized. |
| <i>Asset Valuation Method</i> | The actuarial value of assets equals the market value of assets. |
| <i>Contribution Rate Stabilization Method</i> | Contribution rates are confined to a collar based on the prior average OPSRP contribution rate. The new weighted average OPSRP contribution rate will not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the prior contribution rate. If the funded percentage drops below 80% or increases above 120%, the size of the collar doubles. |

Section 7: Methods and Assumptions

Economic Assumptions

The Board adopted the following economic assumptions for the December 31, 2005 actuarial valuation.

| | |
|--------------------------------|--|
| <i>Investment Return</i> | 8.0% compounded annually |
| <i>Inflation</i> | 2.75% compounded annually |
| <i>Payroll Growth</i> | 3.75% compounded annually. This assumption represents the sum of the inflation assumption and a real wage growth assumption of 100 basis points. |
| <i>Administrative Expenses</i> | \$6.7 million per year is added to the normal cost. |

Section 7: Methods and Assumptions

Demographic Assumptions

The Board adopted the following demographic assumptions for the December 31, 2005 actuarial valuation.

Mortality

Healthy Retired Members

| | |
|----------------------------|---|
| Basic Table | RP 2000, Combined Active/Healthy Retired, No Collar, Sex Distinct |
| School District male | Set back 36 months |
| Other General Service male | Set back 24 months |
| Police & Fire male | Set back 12 months |
| School District female | Set back 36 months |
| Other female | Set back 18 months |
| Beneficiary male | Set back 24 months |
| Beneficiary female | Set back 18 months |

Disabled Retired Members

| | |
|-------------|---|
| Basic Table | RP 2000, Combined Active/Healthy Retired, No Collar, Sex Distinct |
| Male | Set Forward 36 months, min of 2.5% |
| Female | Set Forward 36 months, min of 2.75% |

Non-Retired Members

| | |
|------------------------|---|
| | Percent of Healthy Retired Mortality Tables |
| Police & Fire Male | 70% |
| Other Male | 65% |
| School District Female | 50% |
| Other Female | 55% |

Section 7: Methods and Assumptions

Demographic Assumptions *(continued)*

Retirement Assumptions

Rates of Retirement from Active Status

| Age | Police & Fire | | General Service | | |
|-----|---------------|-----------|-----------------|--|--------------------------------------|
| | < 25 years | 25+ years | <30 years | 30+ years (Tier 1/ Tier 2 Service) | 30+ years (OPSRP Service only) |
| 50 | 7.00% | 7.00% | | 50.0% | |
| 51 | 7.00% | 7.00% | | 50.0% | |
| 52 | 4.25% | 4.25% | | 66.7% | |
| 53 | 4.25% | 50.00% | | 66.7% | |
| 54 | 4.25% | 20.00% | | 75.0% | |
| 55 | 7.50% | 20.00% | 5.00% | 33.3% | 5.00% |
| 56 | 4.25% | 20.00% | 2.50% | 25.0% | 2.50% |
| 57 | 4.25% | 20.00% | 3.75% | 25.0% | 3.75% |
| 58 | 4.25% | 20.00% | 5.00% | 40.0% | 40.00% |
| 59 | 4.25% | 20.00% | 3.75% | 25.0% | 25.0% |
| 60 | 15.00% | 20.00% | 3.75% | 13.0% | 13.0% |
| 61 | 15.00% | 40.00% | 5.00% | 13.0% | 13.0% |
| 62 | 25.00% | 50.00% | 6.00% | 33.3% | 33.3% |
| 63 | 5.00% | 40.00% | 6.00% | 25.0% | 25.0% |
| 64 | 5.00% | 40.00% | 6.00% | 25.0% | 25.0% |
| 65 | 100.0% | 100.0% | 20.00% | 33.3% | 33.3% |
| 66 | | | 8.00% | 30.0% | 30.0% |
| 67 | | | 8.00% | 30.0% | 30.0% |
| 68 | | | 8.00% | 15.0% | 15.0% |
| 69 | | | 5.00% | 15.0% | 15.0% |
| 70 | | | 100.0% | 100.0% | 100.0% |

Retirement from Dormant Status

Dormant members are assumed to retire at Normal Retirement Age.

Section 7: Methods and Assumptions

Demographic Assumptions *(continued)*

Termination Assumptions

The termination rates are structured as 3-year select & ultimate rates.

| Age | School District | | | Ultimate |
|-----|-------------------|-------------------|-------------------|----------|
| | 1st Select Period | 2nd Select Period | 3rd Select Period | |
| 30 | 13.500% | 10.500% | 7.500% | 6.106% |
| 40 | 10.700% | 7.350% | 5.600% | 3.480% |
| 50 | 9.700% | 6.350% | 4.200% | 2.233% |

| | OHSU | | | Ultimate |
|--|-------------------|-------------------|-------------------|----------|
| | 1st Select Period | 2nd Select Period | 3rd Select Period | |
| | 15.500% | 13.500% | 11.500% | 10.003% |
| | 10.900% | 8.750% | 6.750% | 6.374% |
| | 9.900% | 6.000% | 4.000% | 4.184% |

| Age | Independent Employers General Service Male | | | Ultimate |
|-----|--|-------------------|-------------------|----------|
| | 1st Select Period | 2nd Select Period | 3rd Select Period | |
| 30 | 18.750% | 14.750% | 8.750% | 6.094% |
| 40 | 16.250% | 12.250% | 6.250% | 3.791% |
| 50 | 13.750% | 9.750% | 3.750% | 2.338% |

| | Independent Employers General Service Female | | | Ultimate |
|--|--|-------------------|-------------------|----------|
| | 1st Select Period | 2nd Select Period | 3rd Select Period | |
| | 18.200% | 16.000% | 12.200% | 10.365% |
| | 13.700% | 12.000% | 8.800% | 6.176% |
| | 11.800% | 10.000% | 6.600% | 3.861% |

| Age | SLGRP General Service Male | | | Ultimate |
|-----|----------------------------|-------------------|-------------------|----------|
| | 1st Select Period | 2nd Select Period | 3rd Select Period | |
| 30 | 16.700% | 13.500% | 10.200% | 7.538% |
| 40 | 12.200% | 9.500% | 6.800% | 4.139% |
| 50 | 10.300% | 7.500% | 4.600% | 3.065% |

| | SLGRP General Service Female | | | Ultimate |
|--|------------------------------|-------------------|-------------------|----------|
| | 1st Select Period | 2nd Select Period | 3rd Select Period | |
| | 18.200% | 16.000% | 12.200% | 7.511% |
| | 13.700% | 12.000% | 8.800% | 4.500% |
| | 11.800% | 10.000% | 6.600% | 3.100% |

| Age | Police & Fire | | | Ultimate |
|-----|-------------------|-------------------|-------------------|----------|
| | 1st Select Period | 2nd Select Period | 3rd Select Period | |
| 30 | 8.249% | 5.999% | 4.666% | 3.334% |
| 40 | 6.810% | 4.560% | 3.419% | 2.278% |
| 50 | 4.628% | 2.378% | 1.875% | 1.372% |

Section 7: Methods and Assumptions

Demographic Assumptions *(continued)*

Disability Assumptions

There are two disability assumptions used in the valuation - duty disability and ordinary disability. Duty disability rates are separated between Police & Fire and General Service, while ordinary disability is the same for all members.

| Age | Duty Disability Police & Fire | Duty Disability General Service | Non-Duty Disability |
|------------------|----------------------------------|------------------------------------|------------------------|
| Less than age 35 | 0.040% | 0.004% | 0.050% |
| 35-39 | 0.060% | 0.004% | 0.100% |
| 40-44 | 0.060% | 0.010% | 0.150% |
| 45-49 | 0.100% | 0.010% | 0.200% |
| 50+ | 0.150% | 0.020% | 0.300% |

Salary Increase Assumptions

The salary increase assumptions reflected in the actuarial valuation include merit scale increases in addition to the payroll growth increase. Merit increases are based on duration of service for the following groups.

| Duration | School | | SLGRP | SLGRP | Independent | |
|----------|----------|-------|--------------------|------------------|---------------------------------|---|
| | District | OHSU | General Service | Police & Fire | Employers General Service | Independent Employers Police & Fire |
| 5 | 1.90% | 1.00% | 1.80% | 2.30% | 1.80% | 2.50% |
| 10 | 1.20% | 0.30% | 0.90% | 1.10% | 1.00% | 1.30% |
| 15 | 0.60% | 0.25% | 0.40% | 0.60% | 0.55% | 0.80% |
| 20 | 0.26% | 0.00% | 0.10% | 0.30% | 0.30% | 0.50% |

Section 7: Methods and Assumptions

Demographic Assumptions *(continued)*

Salary Increase Assumptions *(continued)*

Full Time Equivalent Rate

All members who work at least 80 percent of the FTE rate are assumed to work a full FTE in future years. Members who work less than 80 percent of the FTE rate are assumed to work the same percentage of FTE in future years.

Section 8: Plan Provisions

The following section summarizes the plan provisions considered in the actuarial valuation. A more detailed description of plan provisions is available from the PERS administrative office.

| | |
|-------------------------------------|--|
| <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. The OPSRP provisions apply to members hired or who experience a break in service after August 28, 2003. |
| <i>Employee Contributions</i> | None |
| <i>Employer Contributions</i> | Actuarially determined |
| <i>Vesting Service</i> | One year of vesting service is earned for each calendar year in which a member completes 600 hours of service. A member becomes vested once they earn five years of vesting service, or attain normal retirement age while an active employee. |
| <i>Retirement Credit</i> | One year of retirement credit is earned for each calendar year in which a member completes full-time equivalent hours ("FTE hours"). Unless defined otherwise, FTE hours equals 2,000. A fractional year of retirement credit is earned if a member works at least 600 hours but less than FTE hours. The fractional retirement credit is equal to hours of service divided by FTE hours. Retirement credit is granted for hours worked during the 6-month waiting period (excluding any hours worked prior to January 1, 2004). |
| <i>Final Average Salary</i> | Greater of highest average salary in three consecutive calendar years or one-third of total salary earned in the last 36 consecutive months of member coverage in OPSRP. |
| <i>Normal Retirement Date</i> | Police and Fire: Age 60 or age 53 with 25 years of retirement credit General Service: Age 65 or age 58 with 30 years of retirement credit School Districts: Age 65 or age 58 with 30 calendar years of active membership |
| <i>Normal Retirement Allowance</i> | A single life annuity equal to final average salary times years of retirement credit attributable to service as police and fire times 1.8% plus final average salary times all other years of retirement credit times 1.5%. |
| <i>Early Retirement Eligibility</i> | Police and Fire: Age 50 and 5 years of vesting service General Service: Age 55 and 5 years of vesting service |
| <i>Early Retirement Allowance</i> | Normal retirement allowance, actuarially reduced to early retirement age. |
| <i>Vesting</i> | Five years or attainment of normal retirement age. |
| <i>Vested Termination Benefits</i> | Same as normal (or early) retirement allowance, but commencement is deferred to normal (or early) retirement date. |

Section 8: Plan Provisions

| | |
|--|--|
| <i>Optional Forms of Retirement Benefit</i> | The normal form of benefit is a life annuity. All optional amounts are adjusted to be actuarially equivalent. |
| | <p>Options Available</p> <ul style="list-style-type: none"> ▪ Life annuity ▪ Joint and 50% or 100% survivor contingent benefit, with or without pop-up feature ▪ Lump sum if monthly normal retirement benefit is less than \$200 or if lump sum value is less than \$5,000. |
| <i>Preretirement Death Benefit Eligibility</i> | Death of a vested member before retirement benefits begin. |
| <i>Preretirement Death Benefit</i> | If member was eligible for early retirement, the actuarial equivalent of 50% of the early retirement benefit the participant was eligible to receive at date of death. If member was not eligible for early retirement, the actuarial equivalent of 50% of the early retirement benefit the participant would have been eligible to receive if he terminated employment on his date of death and retired at the earliest possible date. |
| <i>Disability Benefit Eligibility</i> | <p>Duty: Disablement occurring as a direct result of a job-related injury or illness, regardless of length of service.</p> <p>Non-Duty: Disablement occurring after ten years of service, but prior to normal retirement eligibility.</p> |
| <i>Disability Benefit Amounts</i> | <p>Preretirement Benefit: 45% of salary during last full month of employment before disability, reduced if total benefit including workers' compensation exceeds 75% of salary. Benefit is payable monthly until normal retirement age.</p> <p>Retirement Benefit: Same formula as Normal Retirement Benefit, except:</p> <ul style="list-style-type: none"> ▪ Final average salary is adjusted to reflect cost-of-living increases from date of disability to normal retirement age, and ▪ Retirement credits continue to accrue from date of disability to normal retirement age. |
| <i>Postretirement Adjustments</i> | <p>All monthly pension and annuity benefits are eligible for postretirement adjustments.</p> <p>Automatic Adjustments: Benefits are adjusted annually to reflect the increase or decrease in the Consumer Price Index (Portland area - all items) as published by the Bureau of Labor Statistics.</p> <p>The maximum adjustment to be made for any year is 2% of the previous year's benefit. Any CPI change in excess of 2% is accumulated for future benefit adjustments which would otherwise be less than 2%. No benefit will be decreased below its original amount.</p> <p>Ad Hoc Adjustments: From time to time, as granted by the Legislature, retired members and beneficiaries have received increases in their monthly benefits</p> |

Glossary

Actuarial Accrued Liability. The portion of the present value of prospective benefits allocated to service before the valuation date in accordance with the actuarial cost method.

Actuarial Asset Value. The value of assets used in calculating the required contributions. The actuarial asset value may be equal to the fair market value of assets, or it may spread the recognition of certain investment gains or losses over a period of years in accordance with an asset valuation method. The goal of an asset valuation method is to produce a relatively stable asset value thereby reducing year-to-year volatility in contribution requirements.

Actuarial Assumptions. Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement and retirement; rates of investment earnings and other relevant items.

Actuarial Cost Method. Sometimes called “funding method,” a particular technique used by actuaries to establish the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded actuarial accrued liability. Ordinarily, the annual contribution to the plan comprises the normal cost and an amount for amortization of the unfunded actuarial accrued liability.

Actuarial Gain or (Loss). A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial cost method.

Agent Multiple-Employer Plan (Agent Plan). An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer’s contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer’s plan to determine the employer’s periodic contribution rate and other information for the individual plan.

Annual Pension Cost. A measure of the periodic cost of an employer’s participation in a defined benefit pension plan

Annual Required Contributions (ARC). The employer’s periodic required contributions to a defined benefit pension plan, calculated in accordance with the parameters of GASB 27.

Combined Valuation payroll. Projected payroll for the calendar year following the valuation date for both Tier 1, Tier 2 and OPSRP active members. This payroll is used to calculate UAL rates.

Contribution Deficiencies (excess contributions). The difference between the annual required contributions of the employer(s) (ARC) and the employer’s actual contributions in relation to the ARC.

Cost Sharing Multiple-Employer Plan. A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to employers. A single actuarial valuation covers all plan members and the same contribution rate(s) applies for each employer.

Employer’s Contributions. Contributions made in relation to the annual required contributions of the employer (ARC).

Funded Ratio. The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Glossary

Net Pension Obligation (NPO). The cumulative difference since the effective date of GASB 27 between annual pension cost and the employer's contributions to the plan, including the pension liability (asset) at transition, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to pension-related debt.

Normal Cost. The annual cost assigned to the current year, under the actuarial cost method in use.

OPSRP Valuation payroll. Projected payroll for the calendar year following the valuation date for OPSRP active members. This payroll is used to calculate the normal cost rate.

Present Value. Sometimes called "actuarial present value," the current worth (on the valuation date) of an amount or series of amounts payable or receivable in the future. The present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Required Supplementary Information (RSI). Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Statement No. 27 of the Governmental Accounting Standards Board (GASB 27). The accounting standard governing a state or local governmental employer's accounting for pensions.

Unfunded Actuarial Accrued Liability. The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

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