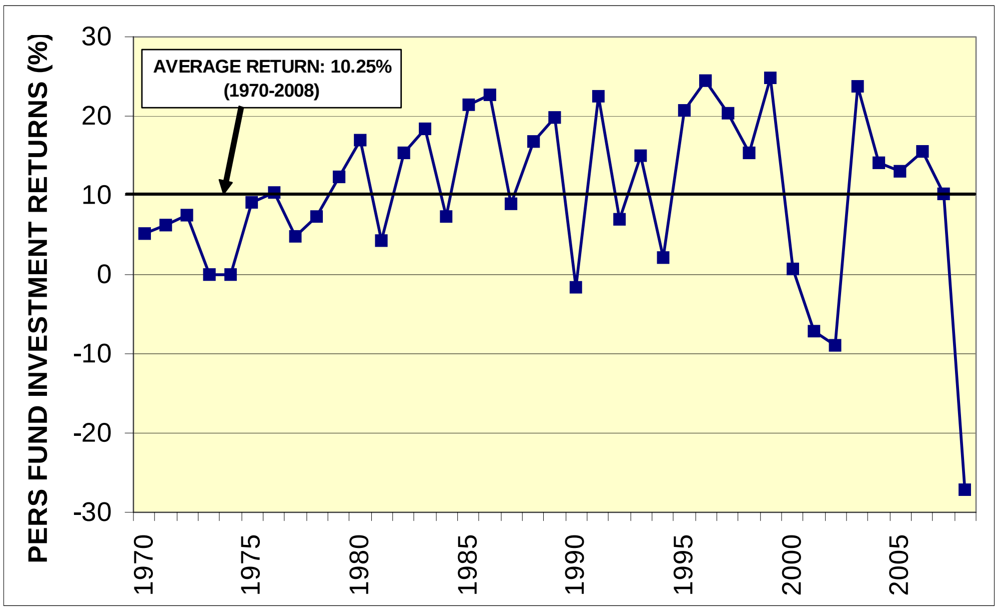
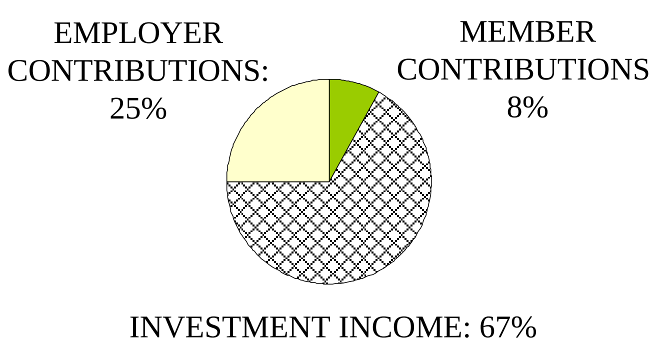
Market Downturn Impacts on PERS: Frequently Asked Questions (August 2009)

Question 1: What are the historical investment returns for the PERS Fund?
Answer: PERS Fund investment returns averaged 10.25 percent from 1970 through 2008. Over that period, there have only been four years with negative earnings, but three of those have occurred in the past eight years.



Q2: How do investment returns affect PERS?
A: PERS has three sources of revenue: investment income, employer contributions, and member contributions. Investment earnings have provided 67 percent of system revenues from 1970 through 2008.

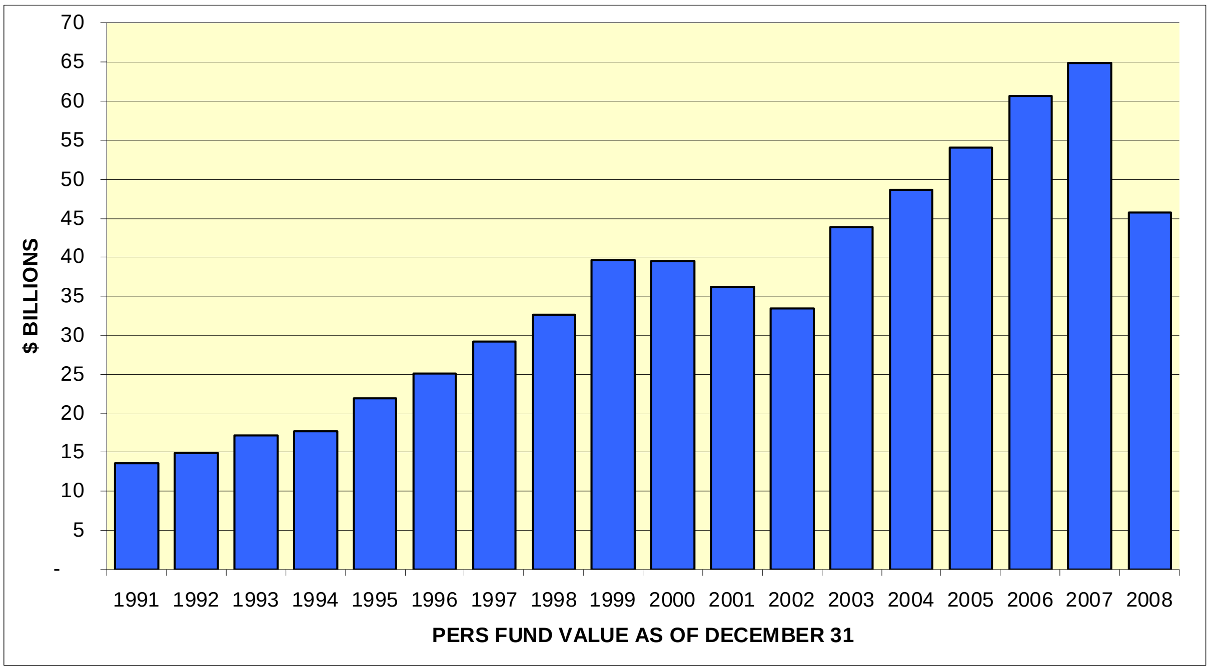
The PERS program accumulates and invests dollars over a member's career, which continue to be invested while being paid out during retirement. This extended fund accumulation and pay-out period supports a long-term investment strategy, which provides time for recovery from short-term market disruptions.



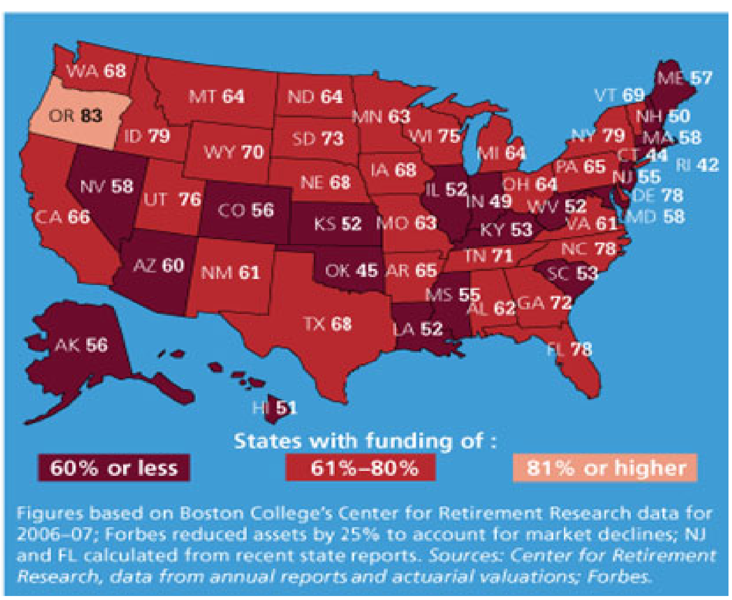
Q3. How has the 2008 market downturn impacted the PERS Fund?
A: Because of unprecedented and worldwide market turmoil, the PERS Fund lost approximately 27 percent in value during 2008, the worst investment loss since the system was created in 1945, and three times the next worst loss of 9 percent in 2002.

At the end of December 2007, the PERS Fund was valued at $64.9 billion and the system was 112 percent funded. As of December 31, 2008, the Fund was valued at $45.8 billion and the system was approximately 80 percent funded.

For comparison, PERS was 65 percent funded before the 2003 PERS reform legislation and the 2003-2007 market recovery. PERS Fund values over time are shown below. Despite the 2008 market downturn, PERS is still one of the best funded state retirement systems in the nation.



Estimated funding status for public pension systems as of December 31, 2008
(from *Forbes* Magazine, online edition, February 6, 2009)



Forbes Magazine, online edition February 6, 2009

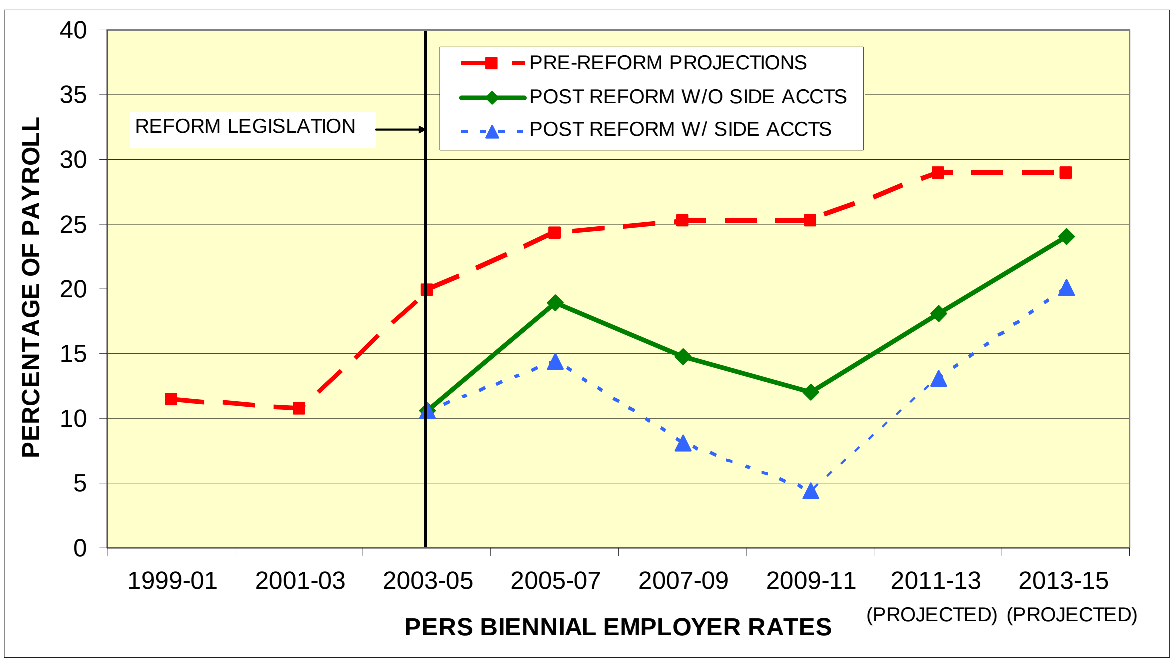
Q4. How will the market downturn affect PERS employer contribution rates?
A: Employer contribution rates are set every two years, changing July 1 of the odd numbered year. Employer rates effective July 1, 2009 are based on the system's valuation as of December 31, 2007, and were not affected by the 2008 market downturn. Because of good investment returns in 2006 and 2007, those rates now average 12 percent of payroll system wide, about 3 percent of payroll less than the previous biennium's rates.

Employer rates effective July 1, 2011 will be based on investment returns for calendar years 2008 and 2009. Current projections are for those rates to increase by 6 percent of PERS-covered payroll, to a system wide average of 18 percent. That expected increase is due primarily to investment losses from 2008 and the first quarter of 2009.

Many employers will also be impacted by investment losses on their employer side accounts (which hold pension obligation bond proceeds). Because of those losses, side account rate offsets will decrease by an average of 3 percent of payroll in the 2011-13 biennium. This reduced offset, combined with the projected rate increase, could have the net effect of increasing costs by about 9 percent of payroll for employers with side accounts.

Q5. What are the longer-term projections for PERS employer contribution rates?
A: PERS' actuary, Mercer, recently conducted a financial modeling study based on the value of the PERS Fund as of March 31, 2009, which was $41.5 billion. The analysis projected that, without a substantial market recovery, employer rates could increase another 6 percent of payroll in the 2013-15 biennium to a system wide average of 24 percent, and could approach 30 percent of payroll in subsequent biennia.

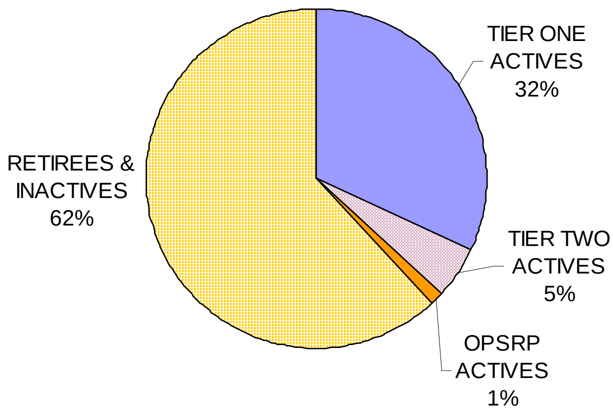
Q6. Are employer contribution rates lower today due to PERS reform?
A. Yes. In 2003, when PERS had an unfunded actuarial liability of over $17 billion, employer rates were projected to rise to 29 percent of payroll, even without factoring in future investment losses like what occurred in 2008. PERS reform "froze" Tier One and Tier Two Money Match benefits and stabilized system liabilities, while also providing a lower-cost system for new employees (OPSRP). The following chart compares pre- and post-reform employer rate trends and projections through the 2013-15 biennium.



Q7: What percentage of employer contributions go to fund benefits for retired and inactive members?

A. Approximately 62 percent of the system's accrued liabilities are related to retired or inactive members. Over the next six years, about 38 percent of the total employer contributions are projected to be used to cover unfunded liabilities associated with retired and inactive members. So, the employer rates assessed on today's workers are also being used to cover substantial unfunded liabilities associated with their predecessors.

Accrued Liabilities as of December 31, 2007



Q8: What has happened to retirement benefits since PERS reform in 2003?

A. Replacement ratios (the percent of final average salary paid in retirement benefits) have declined as a result of PERS reform. The average replacement ratio for 30-year members peaked in 2000 at 100 percent and dropped to 80 percent in 2008. The average replacement ratio for all retirees, regardless of years of service, peaked in 2002 at 68 percent, and dropped to 52 percent in 2008. The current average benefit for the 106,000 living retirees and beneficiaries is approximately $2,000 per month or $24,000 annually.