Public Employees Retirement System				
	2013-15 Actual	**2015-17 Legislatively Approved***	**2017-19 Current Service Level**	**2017-19 Governor's Budget**
Other Funds	81,931,164	108,240,199	97,396,583	109,143,993
Other Funds (NL)	9,027,953,765	9,723,458,062	10,994,171,000	10,993,982,999
Total Funds	**$9,109,884,929**	**$9,831,698,261**	**$11,091,567,583**	**$11,103,126,992**
Positions	372	380	377	378
FTE	369.18	380.00	377.00	378.00

*Includes Emergency Board and administrative actions through December 2016.

Program Description

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, public school districts; statutory judges, and participating cities, counties, and special districts in Oregon. The agency also administers a retiree health insurance program and a voluntary employee deferred compensation program for state agencies and some local governmental units. The five-member Public Employees Retirement Board has broad authority for operation of the system. Day-to-day operations are carried out by the Board-appointed executive director and agency staff.

Other Funds Limited revenue includes: the agency's administrative budget is primarily financed by revenue transfers from the various benefit trust funds administered by the agency. Other Funds NonLimited revenue includes: investment earnings, employer contributions, employee contributions, retiree healthcare insurance premium payments, and nominal miscellaneous revenue.

CSL Summary and Issues

The 2017-19 current service level budget for the agency totals $97.4 million (377 positons; 377.00 FTE) for agency operations and $11 billion for Nonlimited benefit payments. The CSL operating budget is $10.8 million, or 10%, less than the 2015-17 legislatively approved budget of $108.2 million. The budget includes the phase-out of $8.3 million of one-time information technology costs and limited duration position authority. CSL Nonlimited benefit payments are $1.3 billion, or 13.1%, more than the 2015-17 legislatively approved budget of $9.7 billion.

Policy Issues

In January of 2016, PERS received an information security program review, or risk assessment, from an independent security consultant hired by the agency as part of a reoccurring annual review of the agency's practices. The review was for the year 2015 and identified a number of information security vulnerabilities. In July of 2016, PERS signed a contract with Hewlett Packard Enterprise Services for an information security program review to address the vulnerabilities identified in the 2015 risk assessment. From August 2016 to March 2017, the agency and Hewlett Packard will complete a three-phase project: Phase 1: information security plan review, including disaster recovery and business continuity planning; Phase 2: recommendations for an information security program; and Phase 3: recommendations for the remediation of issues identified in the 2015 risk assessment. Concurrently, PERS will be developing, with the OSCIO Enterprise Services Division, a feasibility study on whether PERS should move to the State Data Center, which potentially could address many information security concerns as well as disaster recovery and business continuity needs.

The Individual Account Program (IAP) is an account-based benefit program for all active PERS members that was created as part of system wide reforms in 2003. The total value of all IAP accounts is approximately $7.5 billion. Third party administrative costs total approximately $4.4 million per biennium with PERS agency administrative costs totaling an additional $10.4 million per biennium. The PERS IAP project is to bring administration of the program in-house. The IAP project experienced a major change in scope, schedule, and budget since first being approved by the Legislature in 2013.

Beginning around 2011, concern was raised about the risk the IAP potentially places on PERS members at retirement. Given that IAP accounts are invested long-term in the same manner as the rest of the PERS portfolio, a market downturn at an inopportune time could jeopardize a portion of a PERS member's retirement. A somewhat similar experience occurred with the Oregon 529 College Savings Network plan after the 2008-09 market downturn and the 2007-09 economic recession. The 529 College Savings account balances plummeted just as some participants sought to withdraw funds to pay for college. The State Treasurer, the Oregon Investment Council (OIC), and the PERS Board, have been evaluating options for reducing IAP investment risk; however, the de-risking of the IAP portion of the PERS portfolio could impact the OIC's ability to meet the assumed earnings rate. Additionally, such a proposed change would impact the IAP information technology project's current scope, schedule, and budget. As another aside, PERS is giving some consideration to seeking the statutory authority to eliminate the installment payment option from the IAP.

PERS implemented a reorganization plan effective July 1, 2015. There was no discussion during either the 2015 or 2016 legislative sessions by PERS on either the reorganization itself or the need for the reorganization. The reorganization includes: (a) combining the Benefits Payments and the Customer Service Divisions into a single Operations Division; (b) creating a new Compliance, Audit, and Risk Division; (c) eliminating the Policy Planning and Communications Division by moving these functions into the Compliance, Audit, and Risk Division, the Operations Division, and the director's office; and (d) eliminating the Deputy Director position. The reorganization creates a new level of management under the Executive Director by elevating former division directors to: a Chief Operations Officer (COO), a Chief Administrative Officer (CAO), a Chief Technology Officer CTO), and a Chief Compliance/Audit/ Risk Officer (CCO). These positions would continue in their roles as division administrators. A reorganization of the Financial and Administrative Services Division is pending. PERS plans to self-finance the cost of the reorganization through a permanent finance plan. The Department of Administrative Services (DAS) submitted a substantive program change report to Legislative Leadership and the Legislative Fiscal Office pertaining to the PERS reorganization, as required by ORS 291.373. With the fulfillment of that reporting requirement, the PERS reorganization plan proceeded, with the exception of the proposed change to the Deputy Director position. This position was viewed as too important to be abolished, or reclassified, and the expectation is that the position needs to be filled. PERS is requesting administratively a number of permanent finance plans that total approximately $552,192 and are funded with positon abolishment's, downward reclassifications, and reductions to the number of months' certain positions are funded.

<u>Other Significant Issues and Current Discussions</u>

There are ongoing Legislative discussions to identify pension system reform and financing options. There are also preliminary indications that the PERS Board may be considering a further reduction to the current assumed earnings rate of 7.50%.

By statute, the PERS Board can credit up to the assumed earnings to the Contingency Reserve, if earnings exceed the assumed earnings rate. Statutorily, contingency reserves are for: (a) employer insolvency; (b) legal expenses; and (c) unspecified contingencies. The 2016 earnings crediting report makes note of an overfunding of the PERS Contingency Reserve by $345.8 million out of the $583.7 million balance (59%). The overfunding of the Contingency Reserve has been an issue for the Legislature beginning with the 2012 earnings crediting report. Reserve funds are not accounted for in actuarial valuations and the deployment of any amount of reserves to member regular accounts and employer accounts would reduce employer rates. Additionally, the PERS Board's policy of rate collaring, or administratively limiting rate increases from one biennium to the next, practically eliminates the need for reserve funding. While the PERS Board's decision to allocate Contingency Reserve funds appears prudent, the Board has yet to make a final decision related to the deployment of excess reserves.