PRELIMINARY ANALYSIS
PUBLIC EMPLOYEES RETIREMENT SYSTEM PROPOSAL
79th Oregon Legislative Assembly – 2017 Regular Session

This form provides an outline for the preliminary analysis of proposals submitted to the Senate Committee on Workforce to address the rising costs and long-term sustainability of the Public Employees Retirement System (PERS). A technical team, including but not limited to individuals from Legislative Counsel, Legislative Fiscal, and PERS, will analyze each proposal under the following criteria for the Committee's consideration.

- Constitutionality
- Order of Magnitude in Savings
- Actuarial Soundness
- Impact on Employer Contribution Rates
- Impact on State and Local Budgets
- Impact on Public Employee Benefits
- Impact on public Employee Workforce
- Equitability of Costs & Benefits to Public Employees
- Administrative Feasibility

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Measure Numbers/LC (if any): Senate Bill 560 -3 amendment

Summary of Proposal: The proposed amendment requires the PERS Board to use a 3.5% interest rate for development of actuarial factor (AEF) tables instead of the assumed rate.

Summary of Current Law: The PERS Board, based on information and guidance from the Oregon Investment Council and professional staff, determines the appropriate assumed earnings rate every two years.

Has a detailed actuarial analysis been completed for this proposal? Yes, attached. Milliman letter dated October 28, 2016, based on December 31, 2015 valuation results. The Milliman analysis was not specifically based on SB 560 -3, but rather the concept of using a 3.5% rate to calculate Money Match annuities (see the "Technical Issues of Note" section on possible revisions needed to the amendment as drafted).

Please note that if multiple concepts are implemented together, the resulting effect would not be the cumulative amount of the separate concepts illustrated below. Instead, the interactions between the various benefit modifications would produce a reduction in liability and uncollared contribution rate of smaller magnitude than the sum of the

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reductions shown below. If more than one concept will be incorporated into a legislative proposal, an additional analysis should be conducted to study the combined effects.

Legislative Fiscal – In the absence of an actuarial analysis on SB 560 -3, LFO is relying upon the October 28, 2016 actuarial analysis.

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The analysis should address each of the following criteria to the extent that information is available.

1. **Constitutionality**
   Legislative Counsel – Appears to meet the Moro standard for protection of accrued benefits This proposal does not alter the amount of benefits accrued by a retiring member before the change, but affects only predictions about the growth of those amounts in the future. However, note that this proposal would create an unusual situation in which the board uses the 3.5 percent rate to predict future growth for annuities, but may use a different assumed interest rate for other purposes, including the crediting of Tier 1 member accounts and the valuation of PERS for the purpose of setting employer contribution rates. One could argue that this difference in rates is unreasonable, especially because the use of the higher assumed interest rate would lower employer contribution rates, while the use of the lower assumed interest rate would reduce benefit payments.

2. **Order of Magnitude in Savings (for next three biennia, if possible)**
   PERS – See page 5 of the Milliman letter for reductions in liability that would result from this concept. Please note that 2017-19 employer contribution rates have already been adopted, and those rate increases were limited by the PERS Board's rate collar policy. Cost reductions from this concept would be carried over to future biennia when the collar is fully implemented absent specific direction from the legislature to apply those savings in the next cycle. Doing so would postpone the full implementation of non-collared rates.

   Legislative Fiscal – The measure, if it were to become law, would generate system-wide employer rate savings beginning in the 2017-19 biennium. A preliminary estimate of these savings for the 2017-19 biennium is $122.7 million total funds; however, savings may be reduced or eliminated if the measure is successfully challenged in court, modified through collective bargaining or grievance arbitration, or subsumed by the PERS Board rate collar policy.

3. **Actuarial Soundness**
   PERS – Within the context of whether this concept would, over the time period considered, allow projected employer contributions and investment income to

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fully fund the system, this concept would reduce that period (or lower costs during that period) as it reduces the benefits to be paid.

4. **Impact on Employer Contribution Rates (for next three biennia, if possible, including normal costs, unfunded actuarial liability (UAL), Individual Account Program/employee contributions, state agencies, school districts, and other PERS employers)**
   PERS – See the comment about the current employer rate setting cycle and implementation of the PERS Board's rate collar.

   LFO – According to the Milliman actuarial analysis of this concept, the normal cost rate for employers statewide would be reduced by 0.20% and the Unfunded Accrued Liability rate by 0.60% for a total **uncollared** rate reduction of 0.80%. The average system-wide employer rate would decline from 29.08% to approximately 28.28%.

5. **Impact on State and Local Budgets (cost savings and cost shifts, impact on General/Lottery Fund, and potential financial impact on collective bargaining)**
   PERS – See the comment about the current employer rate setting cycle and implementation of the PERS Board's rate collar.

   LFO – A preliminary estimate of the ***gross*** General/Lottery Fund savings for the 2017-19 biennium for state government is approximately $46.7 million; however, savings may be reduced or eliminated if the measure is successfully challenged in court, modified through collective bargaining or grievance arbitration, or subsumed by the PERS Board rate collar policy.

6. **Impact on Public Employee Benefits (Tier 1, Tier 2, Oregon Public Service Retirement Plan (OPSRP))**
   PERS – This concept would only impact Tier 1 members whose highest benefit calculation method is Money Match; for 2016, that represented about 25% of the retirements processed. Note that Money Match and Full Formula benefits for members who have not yet retired are very close to equal so this concept may not result in much of a reduction for those members who would otherwise receive Money Match benefits.

7. **Impact on Public Employee Workforce (rate of retirements, employers' ability to recruit and retain employees)**
   PERS – While no one can reliably predict this impact, we would note that, as of December 31, 2016, over 32% of non-retired members across all Tiers and employer groups (70,335 of 219,220) were eligible to retire based on age or years of service. The population of members who are eligible for Money Match is

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probably among this group that's also eligible to retire, so this concept would incent a large portion of that population to retire sooner.

8. **Equitability of Costs and Benefits to Public Employees (costs/benefits)**
   PERS – This concept would only impact Tier 1 members whose highest benefit calculation method is Money Match, and there is no equitable basis stated for why members in that circumstance should have their benefits reduced.

9. **Administrative Feasibility**
   PERS – There will be a fiscal impact to the agency to reprogram benefit calculation software to accommodate the new calculation. Additionally, the agency will revise member education material in all formats to reflect the new calculation.

   LFO – LFO does not have sufficient information at this time to respond to this question; however, the measure is assumed to have a fiscal impact on the operational budget of PERS for costs associated with implementing the measure (e.g., information technology), as well as possible legal costs.

Technical Issues of Note:
PERS – We understand that the intent of this concept is to only affect the Money Match calculation. As drafted, however, this amendment directs the PERS Board to use actuarial equivalency factor tables based on the stated 3.5% rate. Those tables are used for several purposes, not just to determine Money Match annuity amounts. Consequently, if adopted as presented, this amendment would also reduce the financial impact of annuitizing member regular accounts to fund Full Formula benefits and the conversion tables for optional forms of benefits. We are available to consult with legislative staff to more narrowly tailor this amendment's affect if that's the committee's direction.

Legislative Fiscal – The measure may require clarification to ensure that budgetary savings begin with the 2017-19 biennium and reduce the recalculated 2017-19 employer contribution rates adopted by the PERS Board. Also, a more complete fiscal analysis will be prepared as the measure advances through the legislative process.

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