

# Public Employees Retirement System Legislative Review of System Financing Orientation

Joint Committee on Ways and Means

Capital Construction Subcommittee

February 15, 2019

Legislative Fiscal Office

# Focus on System Financing

There are three broad categories of PERS system review:

1. Benefit modification
2. Cost allocation
3. ***System financing\****

***System financing is the determination of liabilities and assets, earnings from assets, system expenses, and contributions.***

***The Capital Construction Subcommittee's focus will be system financing, including voluntary employee retirement savings plans.***

# Agenda Topics

- Meeting 1: Work Plan Review and PERS System Overview
  - Meeting 2: Liabilities and Assets
  - Meeting 3: Earnings and Expenses
  - Meeting 4: Employers and Employees
  - Meeting 5: Public Testimony
  - Meeting 6: Findings and Recommendations
- ❖ Agendas for each meeting will include follow-up to any unanswered questions from the prior meeting.

# Presentation Guidelines

- Based on plain language for the layperson
- Limited use of acronyms
- Presenters will be limited to agency subject matter experts by invited testimony
- Outside actuarial consultants or other professionals will only be asked to present at the direction of the Subcommittee Co-Chairs
- Subcommittee to “throw the flag” on confusing terminology or actuarial or investment speak

# Work Plan Overview

- How is system financing designed to work?
- How is system financing actually working?
- How does Oregon compare to other state or peer pension plans?
- What are practical financial questions to be asked and answered?
- What are policy-level financial questions to be asked and answered?
- A list of supplemental resources will also be made available
- Answers to these questions, after public testimony, will lead to Subcommittee findings and recommendations

# Practical Questions

*as related to system financing*

1. What is it and how is it defined – in plain language
2. Who is responsible for it?
3. How is it determined?
4. How much is it and what is the future trend?
5. How does it compare over time and nationally to peer systems?
6. What are the factors that influence it and within what constraints?
7. What past efforts have been undertaken to influence it?
8. What is its nexus to budgeting?
9. Who exercises oversight?
10. What opportunities for improvement exist?

# Policy Questions

*as related to system financing*

1. What factors are driving the increase in the unfunded liability?
2. What efforts can be taken to improve system funding?
3. How successful were prior reform efforts and what is the long-term outlook?
4. What efforts can be undertaken to prudently add assets to the system?
5. Is bonding a viable financing option?
6. What efforts can be undertaken to improve investment returns?
7. What efforts can be undertaken to lower costs?
8. How can the growth in employer contributions be moderated?
9. Are changes needed to the Individual Account Program?
10. How can employee participation in various deferred compensation plan(s) be improved?

# Working Principles Checklist

1. Materiality
2. Legally permissible
3. Actuarially sound
4. Consistent with nationally recognized accounting standards
5. Drive simplicity rather than add complexity
6. Increase transparency and understanding
7. Lower risk to the system and the state
8. Avoid cost-shifting to the state
9. Adhere to equitability and a systemic approach
10. Promote employee deferred compensation participation
11. Time the solution to fit the problem



# PERS Overview Spoiler

- PERS system overview presentation will introduce at a high-level many complex topics and issues and raise many questions.
- The plan, over the next series of subcommittee meetings, is to **methodically** step back and provide definition, context, and understanding for each of the major concepts introduced in the overview and answer any questions that arise related to system financing.
- Repetition will be the theme.

# PERS Financing Navigational Aids

1. Current law discussion
2. Hold benefit plan design constant for now (i.e., benefit reform)
3. Don't be overwhelmed by the materiality of PERS
4. Don't assume that liability growth is because of past legislative actions
5. Understand that the system is based on inherent variability
6. Measure time in amortization periods, not year-to-year
7. Be cautioned of exchanging a variable for a fixed obligation
8. PERS is a composite system and one size may not fit all
9. Measure the effectiveness of prior legislative reforms exclusive of legacy costs
10. Develop a solution aimed at the projected spike in the cost of benefits

# Supplementary Resources

- Glossary of commonly used terms
- Financial audits
- Actuarial reports
- Agency commissioned studies
- National studies
- PERS reports
- Legislative Fiscal Office Budget Briefs
- Primers developed as needed

# Closing Remarks

Questions, comments, or concerns?

Thank You.