

# Public Employees Retirement System Legislative Review of System Financing

Joint Committee on Ways and Means

Capital Construction Subcommittee

March 1, 2019

Legislative Fiscal Office

# 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.

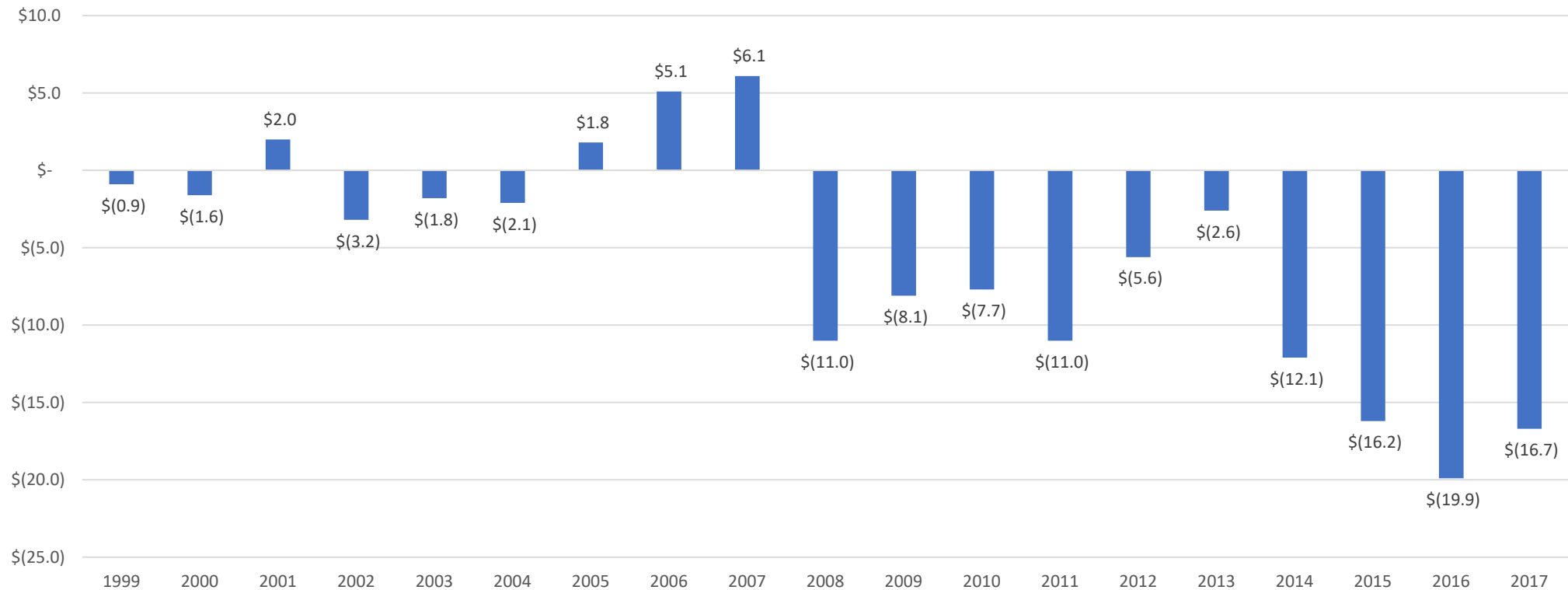
# Supplemental Discussion

1. PERS Year-to-Year Cash Flow Examples
2. Unfunded Liability Explanation
3. Side Accounts
4. Assumed Earnings Rate History

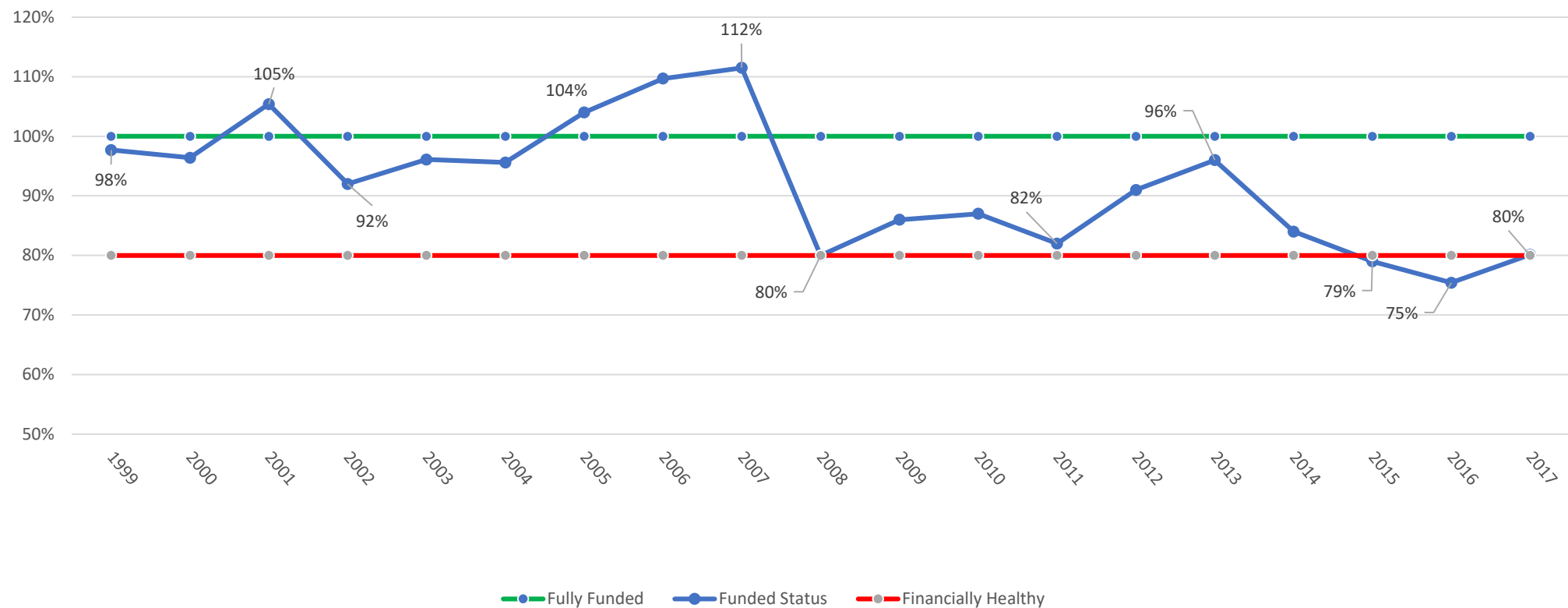
# PERS Year-to-Year Cash Flow Illustration

Major Category	Calendar Year 2015 (in millions)	Calendar Year 2016 (in millions)	Calendar Year 2017 (in millions)
Beginning balance	\$63,919	\$62,205	\$63,232
Benefit payments	(4,116)	(4,301)	(4,586)
Investment earnings	1,202	4,279	9,415
Employer contributions	1,200	1,049	1,256
Ending balance	\$62,205	\$63,232	\$69,316
Dollar change in ending balance	(\$1,714.5)	\$1,027.6	\$6,084.0
Percentage change in ending balance	-2.7%	+1.7%	+9.6%

# PERS Unfunded Liability History 1999-2017 (with side accounts)



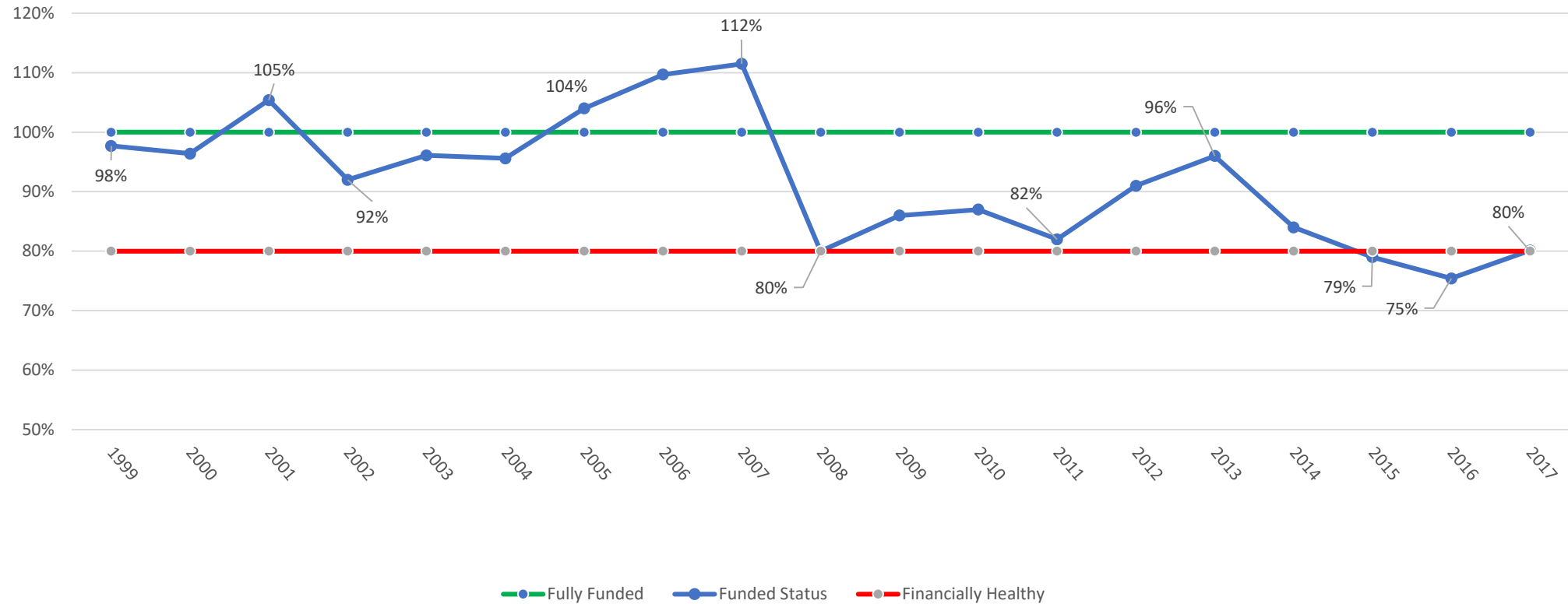
# PERS Percent Funded Status History 1999-2017 (with side accounts)



# Funded Status History

Funded Status by Percentage and Number of Years						
With Side Accounts	<100% Funded	>100%≤90%	>90%≤80%	>80%≤70%	>70%	Total
Number of Year	4	6	6	2	0	18
% Years	22%	33%	33%	11%	0%	100%
	2001	2000	2008	2015		
	2005	2002	2009	2016		
	2006	2003	2010			
	2007	2004	2011			
		2012	2014			
		2013	2017			

# PERS Percent Funded History 1999-2017 (with side accounts)





# Change in Unfunded Accrued Liability from 2013 to 2017 (estimated)

1	2013 <b>Gross</b> Unfunded Actuarial Liability		\$ (8,504)
2	Side Account Offset		\$ 5,924
3	2013 <b>Net</b> Unfunded Accrued Liability		\$ (2,580)
4	Supreme Court Decision	\$ (5,100)	
5	Change in assumed earnings rate	\$ (4,000)	
6	Expected UAL Increase (e.g., rate collar)	\$ (3,300)	
7	Updated mortality tables	\$ (1,800)	
8	Updated demographic experience	\$ (1,600)	
9	Investment Performance	\$ 1,531	
10	Contingency Reserve Allocation	\$ 500	
11	Legislative benefit changes	\$ -	
12	Actuarial cost method	\$ -	
13	Amortization schedule change	\$ -	\$ (13,769)
14	Side Account adjustment		\$ (363)
15	2017 Unfunded Accrued Liability		<u>\$ (16,712)</u>

# 2017 Unfunded Liability Summary

2017 UAL by Entity	Tier 1/Tier 2/Other UAL	Allocated OPSRP UAL "Tier 3"	Gross UAL	Side Accounts	Net UAL	% Total
School Districts	\$ 7,753	\$ 499	\$ 8,252	\$ 3,010	\$ 5,242	32%
State Agencies	\$ 6,069	\$ 446	\$ 6,516	\$ 1,832	\$ 4,684	29%
Cities	\$ 2,110	\$ 195	\$ 2,306	\$ 133	\$ 2,173	13%
Counties	\$ 1,991	\$ 177	\$ 2,168	\$ 90	\$ 2,078	13%
Special Districts	\$ 1,437	\$ 136	\$ 1,573	\$ 94	\$ 1,479	9%
Community Colleges	\$ 877	\$ 64	\$ 942	\$ 403	\$ 539	3%
	\$ 20,237	\$ 1,518	\$ 21,756	\$ 5,561	\$ 16,194	100%

# Side Accounts

- Side Accounts are prepaid employer contributions.
- Under PERS Oregon Administrative Rule, the PERS Board requires a minimum deposit to the lesser of \$250,000 or 25 percent of the employer's UAL for each new side account. There is no minimum payment required to add funds to an existing side account.
- The cost for an employer to establish and maintain a side account has two components: (a) administrative costs and (b) investment expenses. The PERS Board charges an administrative fee of \$1,500 for the first year to establish a side account and a \$500 fee each year thereafter, which are within the statutory limitation.

# Side Account Summary Data

Entity	Side Account Balance	% of Total		Entities with Side Accounts	% of Total		Average	Median	Max	Min
School Districts	\$ 3,009,658,434	54%		95	66%		\$ 31,680,615	\$ 16,138,646	\$ 606,925,156	\$ 1,652,332
State Agencies	\$ 1,832,000,595	33%		1	1%		\$ 1,832,000,595	\$ 1,832,000,595	\$ 1,832,000,595	\$ 1,832,000,595
Cities	\$ 132,973,514	2%		13	9%		\$ 10,228,732	\$ 3,342,969	\$ 53,788,781	\$ 116,389
Counties	\$ 90,002,476	2%		10	7%		\$ 9,000,248	\$ 6,716,571	\$ 27,753,728	\$ 1,036,653
Special Districts	\$ 93,897,926	2%		8	6%		\$ 11,737,241	\$ 10,971,740	\$ 31,463,686	\$ 164,066
Community Colleges	\$ 402,669,839	7%		17	12%		\$ 23,686,461	\$ 11,254,669	\$ 110,143,803	\$ 324,003
	<u>\$ 5,561,202,783</u>	<u>100%</u>		<u>144</u>	<u>100%</u>		<u>\$ 38,619,464</u>	<u>\$ 11,545,258</u>	<u>\$ 1,832,000,595</u>	<u>\$ 116,389</u>

# Assumed Earnings Rate History

Year(s) Changed	Assume Earnings Rate	Years in Effect
2017	7.20%	>1
2015	7.50%	2
2013	7.75%	2
1989	8.00%	23
1979	7.50%	10
1975	7.00%	4
1973	5.50%	2
1970	5.00%	3
1966	3.75%	4
1946	2.25%	20

Questions, comments, or concerns?

Thank You.

# 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?