

# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



Joint Committee on  
Ways and Means

Subcommittee on  
Capital Construction  
March 8, 2019

Kevin Olineck  
Director



# PERS: Employers and Employees

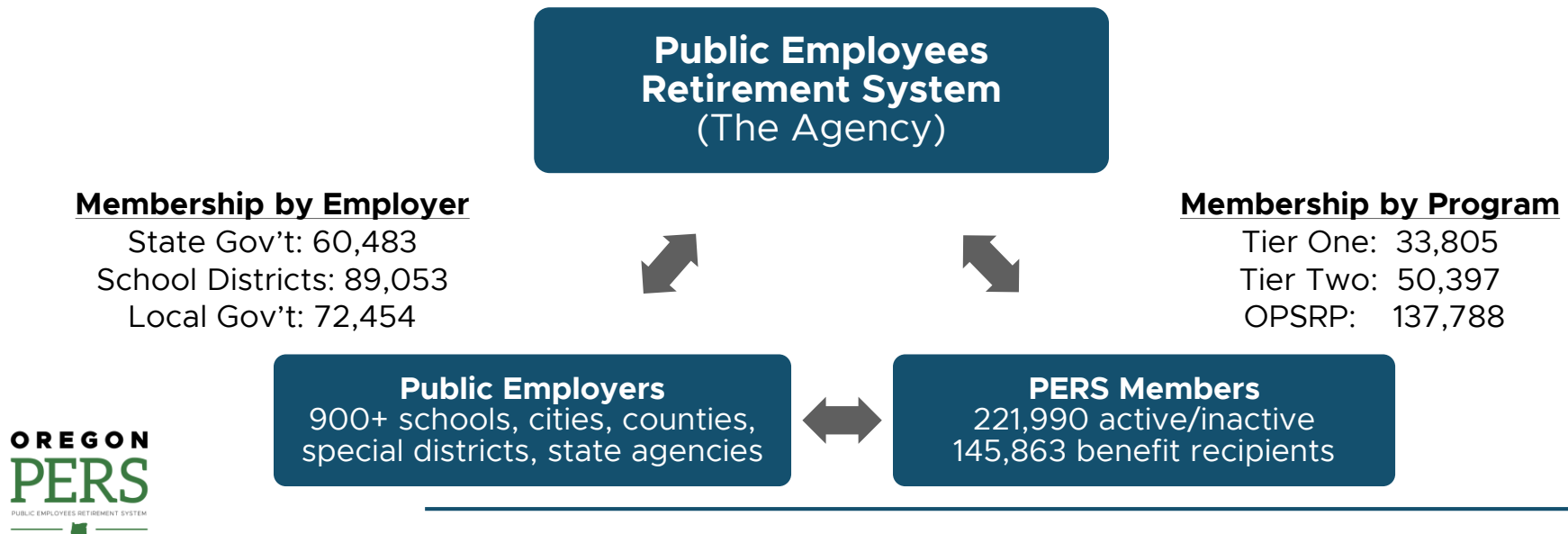
- System Overview Refresher
- Setting Employer Contribution Rates
- Employee Contributions
  - IAP – Mandatory 6% of Salary
  - OSGP – Voluntary Deferred Compensation

# PERS Overview and Partnerships

(as of June 30, 2018)

The Oregon Legislative Assembly is the “Plan Sponsor” for the Oregon Public Employees Retirement System. The legislature determines the benefit structure for participating public employees. Those benefits have been modified over time, generally with benefit enhancements through 1995, but then reducing benefits since, including the creation of the Tier Two program for employees starting in 1996 and then the Oregon Public Service Retirement Program (OPSRP) for employees that started after August 28, 2003.

The legislature established PERS, the agency, to administer the retirement system in partnership with more than 900 public employers, including school districts, special districts, cities, counties, community colleges, universities, and state agencies. PERS collects records and maintains relationships with over 367,000 current and former public employees or their beneficiaries.



# PERS: A System Comprised of Trusts

- The Oregon Public Employees Retirement System was created by the Oregon Legislative Assembly in 1945.
- Operations commenced on July 1, 1946

Statutory References for the Agency	
Statute & Chapter	Program
ORS 237 & 238	Tier 1/Tier 2
ORS 238A	Oregon Public Service Retirement Program (OPSRP)
ORS 238A.300 to ORS 238A.457	Individual Account Program (IAP)
ORS 238.500 to 238.585	Judge Member Retirement Program
ORS 238.485 to 238.492	Public Employees Benefit Equalization Fund
ORS 243.410 to 238.420	Retiree Health Insurance Program
ORS 243.401 to 243.507	Deferred Compensation Program: Oregon Savings Growth Plan (OSGP)
ORS 237.414 and 237.470	Social Security Administration Program

Oregon Administrative Rules (Ch. 459) govern the implementation of PERS' statutory responsibilities.

# PERS Board – Duties and Authority

(Oregon Revised Statutes Chapters 238.630)

- As trustees of the Public Employees Retirement Fund, directed to administer the system to create and maintain long-term stability and viability
- Publish an actuarial report at least once every two years, evaluating the system's current and prospective assets and liabilities and its financial condition, including the mortality, disability, and other experience of the members and employers
- Adopt actuarial equivalency factor tables at least once every two years, using the best actuarial information on mortality available at the time of adoption
- Publish a Comprehensive Annual Financial Report (CAFR) on an annual basis
- Adopt rules and take all actions necessary to maintain PERS as a federal tax qualified retirement plan
- Employ the Director and set up any other positions under the Director deemed necessary to carry on the duties of the administration of PERS



# The PERS Funding Equation

At the end of each calendar year, the PERS actuaries calculate the system's funded status using the following basic equation:

$$B = C + E$$

**BENEFIT DESIGN = CONTRIBUTIONS + EARNINGS**

present value of  
earned benefits

employer funds to  
pay pension benefits

future returns on  
invested funds

**Set by:**

Oregon Legislature

**Set by:**

PERS Board

**Managed by:**

Oregon State Treasury &  
Oregon Investment Council

Every two years, the PERS Board adjusts contributions so that, over time, those contributions will be sufficient to fund the benefits earned, if earnings follow assumptions.

# Board Principles on Rate Setting

When setting employer contribution rates, the PERS Board considers the following objectives and principles:

- Transparent process and inputs
- Predictable and stable employer contribution rates
- Protect funded status to secure future benefit payments
- Equitable across generations of taxpayers funding the system
- Actuarially sound – fully fund the system if assumptions are met
- GASB compliant

*Some of the objectives can conflict, particularly in periods with significant volatility in investment return or projected benefit levels. Overall system funding policies should seek an appropriate balance between conflicting objectives.*

# Employer Contribution Rate Setting Cycle

Actuarial valuations are conducted annually, but alternate between “advisory” and “rate setting”: e.g., the December 31, 2016, valuation results were used to project employer rates, but the December 31, 2017, valuation was used to set actual rates for the 2019-2021 biennium.

Once employer rates are adopted by the PERS Board (in the fall of the even-numbered year), they become effective the following July 1 of the odd-numbered year (18 months after the valuation date).

Valuation Date	Employer Contribution Rates
12/31/2017	July 2019 – June 2021
12/31/2019	July 2021 – June 2023
12/31/2021	July 2023 – June 2025



# Current Rate Collar Design



The **uncollared rate** is the theoretical contribution rate to reach 100% funded status over a specified amortization period if:

- Contributions at that rate started on the actuarial valuation date, and
- Actual future experience mirrors the actuarial valuation's assumptions
- The normal cost rate does not change in subsequent years

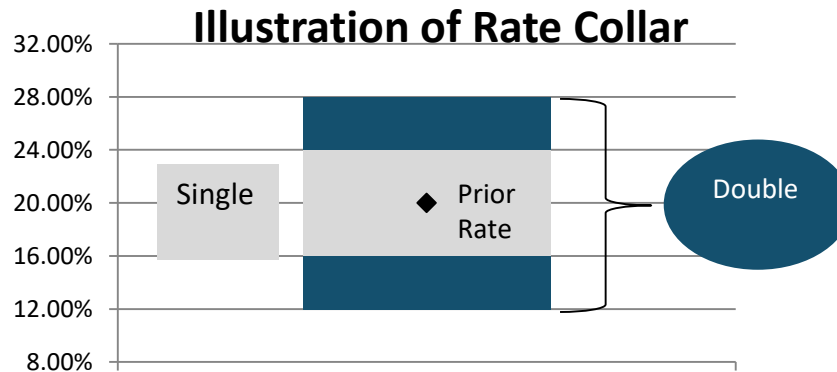
The rate collar sets a biennium's **base rate**, limiting the base rate change when there is a large change in the uncollared rate

Employers pay the **net rate**, which can differ from the base rate due to adjustments that fall into two major categories

- Side account rate offsets for employers with side accounts
- SLGRP charges/offsets (e.g., Transition Liability/Surplus)

# Current Rate Collar Design

- The maximum change typically permitted by the rate collar is: 20% of the rate currently in effect (3% of payroll minimum collar width)
- If funded status is 60% or lower, the width of the rate collar doubles 40% of rate currently in effect (6% of payroll minimum collar width)
- If the funded status is between 60% and 70%, the rate collar's width is pro-rated between the single-collar and double-collar widths



- Collars limit the biennium to biennium increase in the UAL Rate for each individual employer (or pool, if an employer participates in one)

# Side Accounts Explained

When an employer makes a lump-sum payment to prepay part or all of its unfunded actuarial liability (UAL), the money is placed in a special account called a “side account.”

This account is attributed solely to the employer making the payment and is held separate from other employer reserves. Most employers with side accounts issued pension obligation bonds (POBs) and provided the bond proceeds to PERS as a UAL lump-sum deposit to fund their side account.

A few employers funded their side accounts with lump-sum payments from other sources, such as savings from internal operations. PERS does not track individual employer costs associated with POBs.

Side accounts become a part of the “trust” and, consequently, these accounts can not be refunded to the employer.

As of December 31, 2017, 145 employers have side accounts. Of these, 38 employers have multiple side accounts: one city, two special districts, two community colleges, and 33 school districts.

# Side Accounts Explained

Employer Type	# w/ Side Accounts
Independent Locals (not a member of a pool)	6
State Agencies (all, including universities)	1
Pooled Counties	9
Pooled Cities	9
Pooled Special Districts	8
Community Colleges	17
School Districts	95

As of December 31, 2017, side account assets totaled \$5.56 billion.

Side Accounts by Employer Type (as of December 31, 2017)	
Employer Type	Balance (Millions)
Independent	\$85.3
State Agencies	\$1,832.0
Pooled Counties	\$89.0
Pooled Cities	\$48.7
Pooled Special Districts	\$93.9
Community Colleges	\$402.7
School Districts	\$3,009.7

# Side Accounts Explained

## Accounting Treatment

- For Accounting (GASB), side accounts assets are counted

## Actuarial Treatment

- The UAL is calculated and shared both including and excluding side accounts
- The UAL excluding side accounts is used to calculate **base** rates
- Side accounts transfers are used to pay the base rates – this is why the UAL is calculated without side accounts
- The rates actually paid after reflecting the effects of side account transfers are the **net** rates
- The side accounts contribute greatly to the benefit of the employers and in a decrease to their net rates

# System-Wide Weighted Pension-Only Rates

Rates for  
**2009-2011**  
set **prior to**  
**economic**  
**downturn**

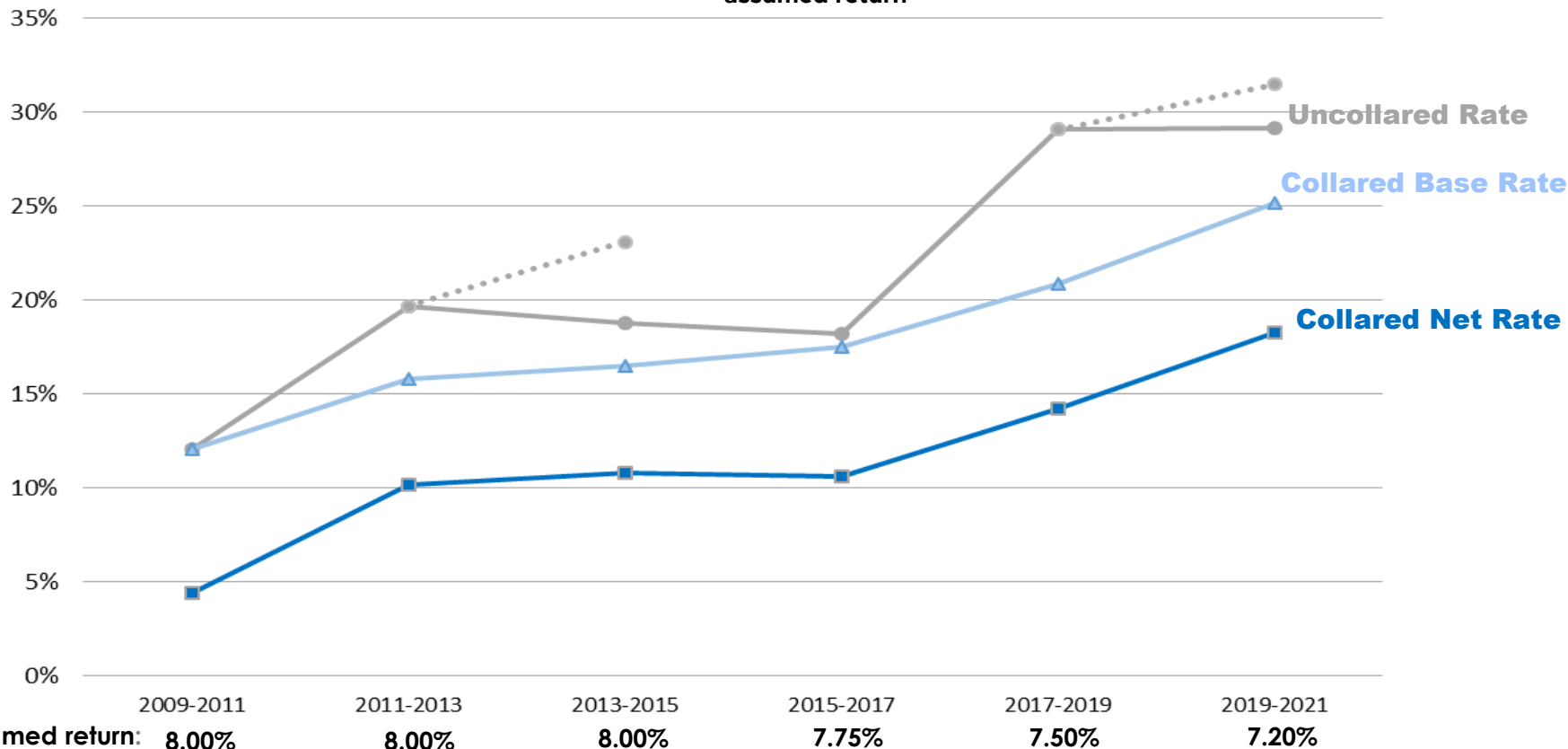
**2011-2013**  
rates first to  
reflect **-27%**  
return in  
2008

**2013-2015** shown  
before (dotted  
line) and after  
(solid line)  
**legislated**  
**changes**

**2015-2017** set  
**pre-Moro**  
reflecting 2012  
(**+14.3%**) & 2013  
(**+15.6%**)  
returns, first  
**decrease in**  
**assumed return**

**2017-2019** set  
**post-Moro**,  
reflecting 2015  
return (**+2.1%**)  
and second  
**decrease in**  
**assumed return**

**2019-2021** reflects  
**+15.4%** return in 2017  
and third **decrease in**  
**assumed return**;  
dotted line is advisory  
valuation's estimate  
prior to 2017 return





# Uncollared Pension Rates – System-Wide

Excludes Retiree Health Care, IAP Contributions, Rate Collar, Side Accounts

	12/31/2015 2017 - 2019 Final			12/31/2017 2019 – 2021 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
Normal Cost	15.07%	8.56%	11.79%	15.27%	8.92%	11.59%
Tier 1/Tier 2 UAL	16.02%	16.02%	16.02%	16.18%	16.18%	16.18%
OPSRP UAL	1.27%	1.27%	1.27%	1.45%	1.45%	1.45%
<b>Uncollared Rate</b>	<b>32.36%</b>	<b>25.85%</b>	<b>29.08%</b>	<b>32.90%</b>	<b>26.55%</b>	<b>29.22%</b>
<b>Increase</b>				<b>0.54%</b>	<b>0.70%</b>	<b>0.14%</b>

# Collared Pension Base Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2015 2017 - 2019 Final			12/31/2017 2019 – 2021 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
<b>Uncollared Rate</b>	<b>32.36%</b>	<b>25.85%</b>	<b>29.08%</b>	<b>32.90%</b>	<b>26.55%</b>	<b>29.22%</b>
Collar Limitation	(8.23%)	(8.23%)	(8.23%)	(3.99%)	(3.99%)	(3.99%)
<b>Collared Base Rate</b>	<b>24.13%</b>	<b>17.62%</b>	<b>20.85%</b>	<b>28.91%</b>	<b>22.56%</b>	<b>25.23%</b>
<b>Increase</b>				<b>4.78%</b>	<b>4.94%</b>	<b>4.38%</b>

*Increases that will be effective July 2019 are limited by the collar.*

# Collared Pension Net Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions

	12/31/2015 <sup>1</sup> 2017 - 2019 Final			12/31/2017 <sup>1</sup> 2019 – 2021 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>
<b>Collared Base Rate</b>	<b>24.13%</b>	<b>17.62%</b>	<b>20.85%</b>	<b>28.91%</b>	<b>22.56%</b>	<b>25.23%</b>
Side Account (Offset)	(6.14%)	(6.14%)	(6.14%)	(6.51%)	(6.51%)	(6.51%)
SLGRP Charge/(Offset)	(0.48%)	(0.48%)	(0.48%)	(0.40%)	(0.40%)	(0.40%)
<b>Collared Net Rate</b>	<b>17.51%</b>	<b>11.00%</b>	<b>14.23%</b>	<b>22.00%</b>	<b>15.65%</b>	<b>18.32%</b>
<b>Increase</b>				<b>4.49%</b>	<b>4.65%</b>	<b>4.09%</b>

***Rates vary by employer, as only some employers have side accounts.***

***Changes in side account offsets are not collared.***

1 For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

2 Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

# Projected 2019-2021 Contributions

(\$ millions)	Projected 2017-19 Payroll*	(A) Projected 2017-19 Contribution	Projected 2019-21 Payroll*	(B) Projected 2019-21 Contribution	(B - A) Projected Contribution Increase
State Agencies	\$ 5,920	\$ 820	\$ 6,350	\$ 1,125	\$ 305
School Districts	6,630	925	7,100	1,300	375
All Others	<u>7,650</u>	<u>1,130</u>	<u>8,200</u>	<u>1,540</u>	<u>410</u>
Total	\$ 20,200	\$ 2,875	\$ 21,650	\$ 3,965	\$ 1,090

Collared net rates are used to project 2019-2021 contributions. The advisory valuation had a projected contribution increase of \$1,415 million, compared to a projected increase of \$1,090 million in this valuation.

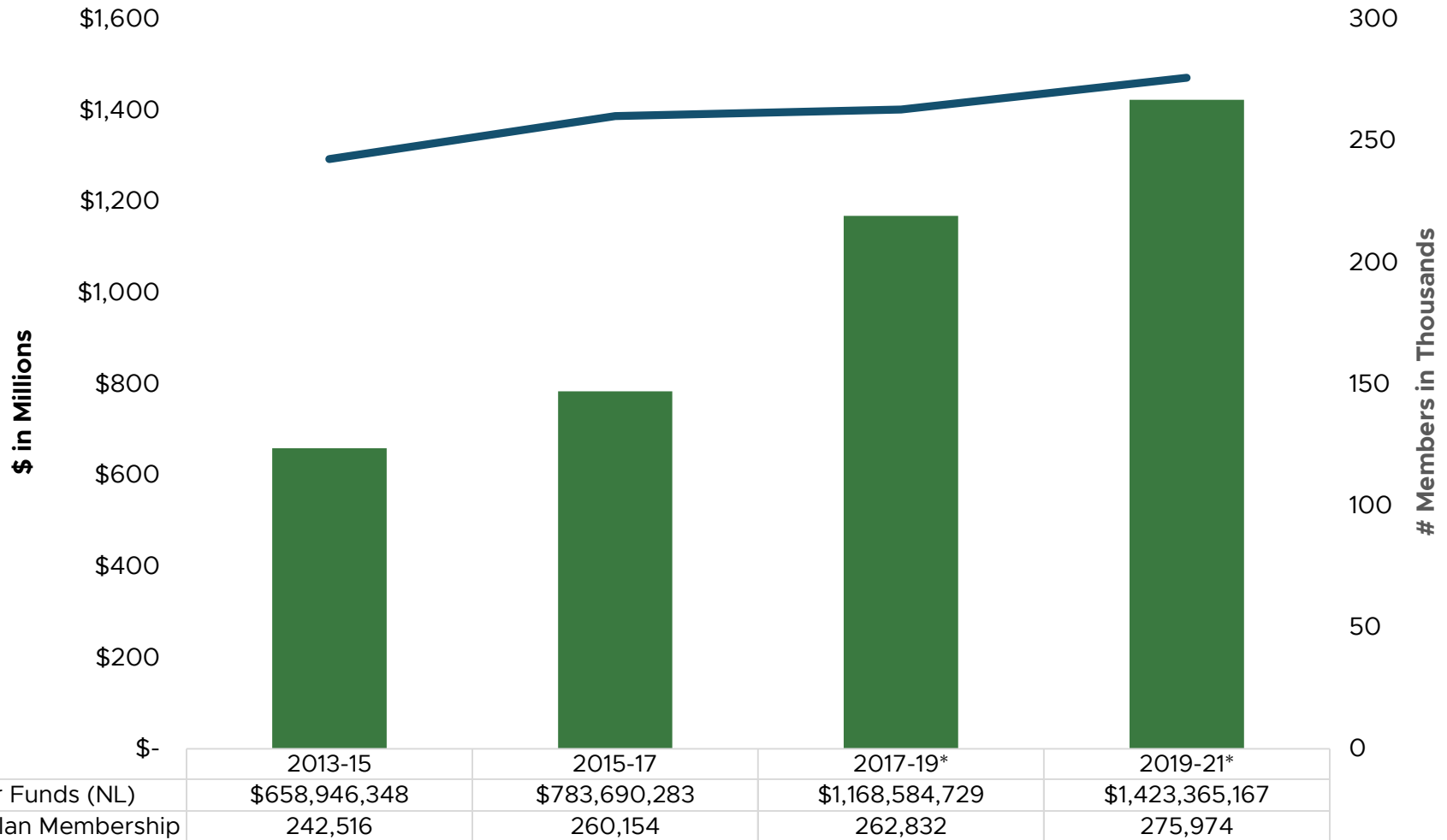
*\* Assumes payroll grows at 3.50% annually based on 12/31/2017 active member census. The collared net rate applied to this payroll reflects the proportional payroll composition (Tier 1/Tier 2 vs. OPSRP) as of the relevant rate-setting valuation dates.*

# PERS: Individual Account Program

- Was created in 2003 under the OPSRP plan
- Contributions began January 1, 2004
- Funded by member contributions (6% of salary)
- The Individual Account Program (IAP) includes:
  - Members in the Oregon Public Service Retirement Plan (OPSRP) pension program
  - Members in the Tier One and Tier Two pension programs

# PERS: Individual Account Program

Plan Membership and Expenditure (est. future years)





# PERS: Individual Account Program

## Performance Metrics

Fiscal Year	Total IAP Membership	Total IAP Retirements Processed	Total IAP Expenditures (in Millions)	Fund Balance (in Billions)
2013	240,697	9,249	\$248.42	\$5.29
2014	244,256	9,021	\$337.47	\$6.46
2015	251,417	7,375	\$327.54	\$6.97
2016	260,164	7,163	\$373.02	\$7.24
2017	262,832	7,636	\$426.60	\$8.37
2018	269,812	8,251	\$559.17	\$9.20

# PERS: Individual Account Program

**Average IAP account balances and distributions to retired members, withdrawals, and deceased members**

Year (as of 12/31)	Total IAP Account Balance After Earnings Crediting (\$M)	# of Accounts	Average IAP Account Balance (\$)	# of Payees
2004	423.4	162,119	2,611	2
2005	928.9	181,055	5,130	4,131
2006	1,396.8	197,491	7,072	6,557
2007	2,120.5	210,133	10,091	6,705
2008	1,851.2	218,192	8,484	8,624
2009	2,742.8	231,256	11,847	7,727
2010	3,536.9	236,265	14,970	8,695
2011	3,939.7	238,062	16,549	11,479
2012	4,855.1	240,637	20,176	14,728
2013	5,127.3	242,516	21,142	14,994
2014	6,001.1	245,768	24,821	15,118
2015	6,906.1	255,896	26,988	15,644
2016	7,634.7	262,096	29,129	16,213
2017	8,960.4	269,812	33,210	16,866

# PERS: Individual Account Program

## Target Date Fund Breakdown

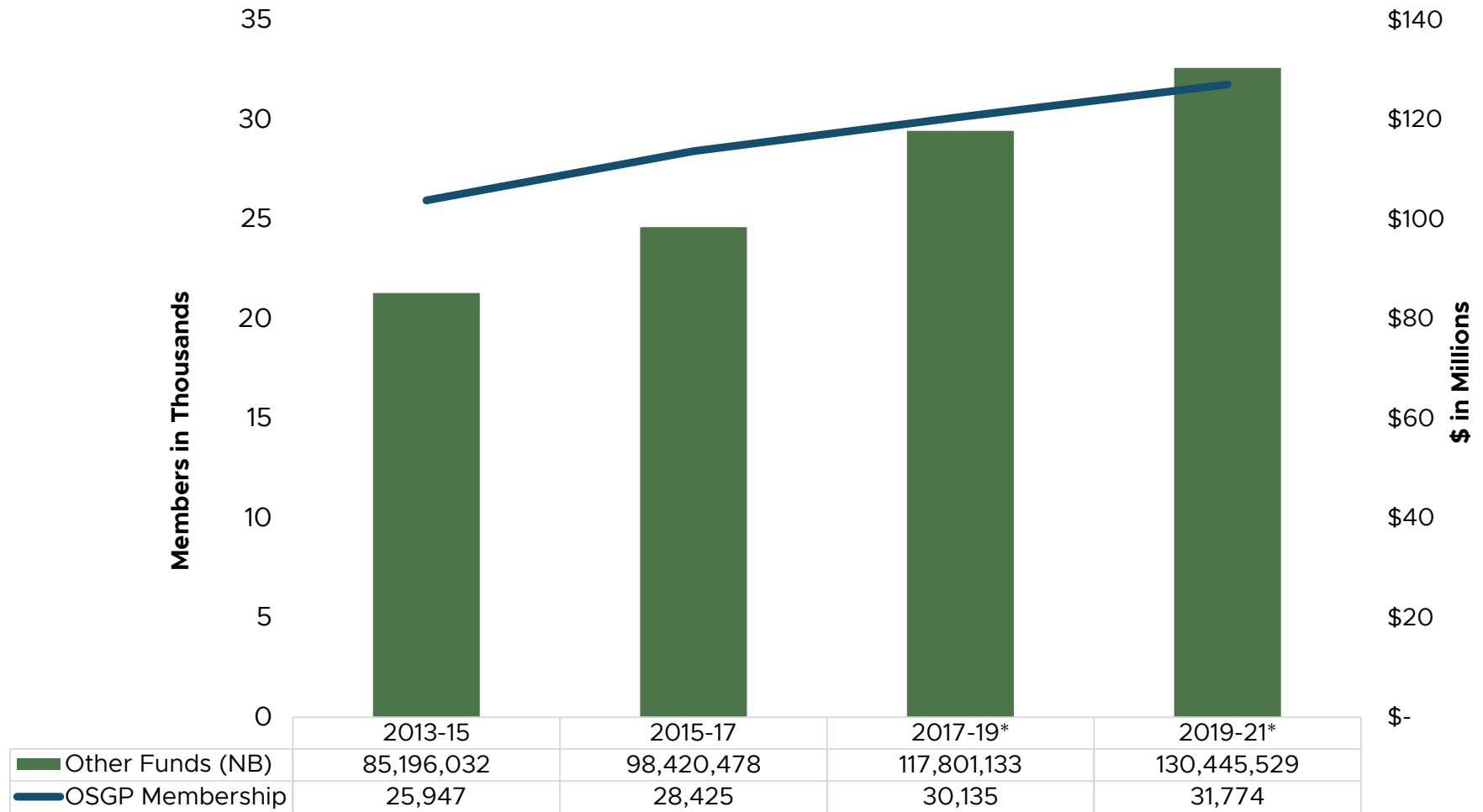
Target-Date Fund	Number of Accounts	Total Account Balance (\$)
<b>Retirement Allocation Fund</b> Born in 1952 or before	22,501	\$709,331,542
<b>2020</b> Born between 1953 and 1957	23,063	\$994,406,907
<b>2025</b> Born between 1958 and 1962	31,611	\$1,466,500,408
<b>2030</b> Born between 1963 and 1967	32,751	\$1,536,066,906
<b>2035</b> Born between 1968 and 1972	36,278	\$1,561,255,880
<b>2040</b> Born between 1973 and 1977	35,758	\$1,260,511,246
<b>2045</b> Born between 1978 and 1982	36,073	\$875,911,688
<b>2050</b> Born between 1983 and 1987	30,156	\$408,972,830
<b>2055</b> Born between 1988 and 1992	19,769	\$116,567,257
<b>2060</b> Born in 1993 or after	6,855	\$14,010,344

# PERS: Oregon Savings Growth Plan

- The Oregon Savings Growth Plan (OSGP) is a deferred compensation program administered by PERS that provides the opportunity for public employees to voluntarily save additional funds to supplement their retirement benefits
- Is available to all state employees and those school districts and local government employers that choose to offer this plan
- Program allows participants to save additional funds for retirement while reducing their current taxable income. Participants can save as little as \$25 per month, up to \$19,000 in calendar year 2019 (\$25,000 if age 50 or older).
- Serves over 31,000 current and former state agency, school district, and local government employees in over 300 employers
- Plan assets were valued at approximately \$1.96 billion as of June 2018

# PERS: Oregon Savings Growth Plan

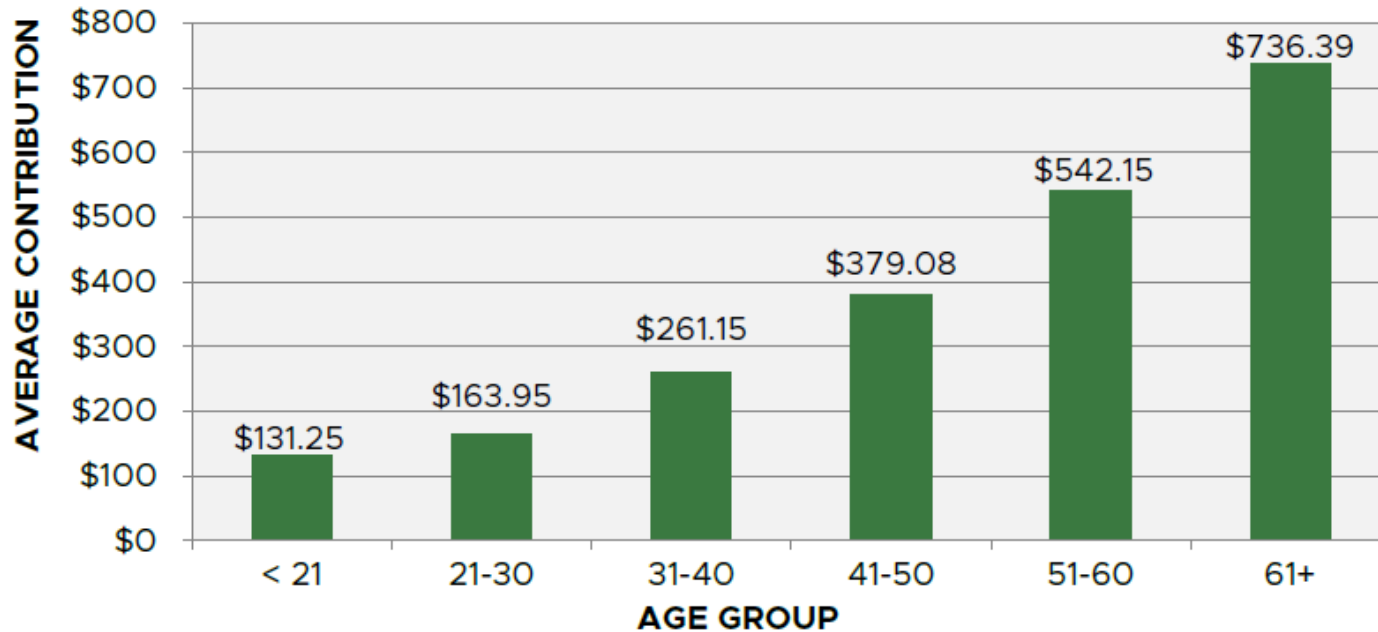
Plan Membership and Expenditure (*est. future years*)



\* Estimated Actual

# PERS: Oregon Savings Growth Plan

Average monthly contribution to OSGP by age



Average contribution amount: \$445.93/month



# PERS: Oregon Savings Growth Plan

## Performance Metrics

Fiscal Year	Members	Admin Expense	Annual Expenditures Total (in Millions)	Fund Balance (in Billions)
2013	24,515	\$874,584	\$71.42	\$1.27
2014	24,578	\$997,202	\$90.64	\$1.48
2015	25,947	\$1,018,468	\$85.19	\$1.54
2016	27,204	\$1,202,786	\$92.55	\$1.56
2017	28,425	\$1,330,947	\$98.42	\$1.78
2018	30,135	\$1,469,816	\$117.80	\$1.96

# Additional Resources

## **Milliman December 31, 2017 System Valuation**

- Annual actuarial report of the system assets and liabilities

<https://www.oregon.gov/pers/Documents/Financials/Actuarial/2018/Actuarial-Valuation.pdf>

## **Comprehensive Annual Financial Report (CAFR) – Fiscal Year End June 30, 2018**

- Report of all funds over which the PERS Board exercises authority

<https://www.oregon.gov/pers/Documents/Financials/CAFR/2018-CAFR.pdf>

## **NASRA Issue Brief:**

- Employee Contributions to Public Pension Plans

<https://www.nasra.org/files/Issue%20Briefs/NASRAContribBrief.pdf>

## **NASRA Issue Brief:**

- State Hybrid Retirement Plans

<https://www.nasra.org/files/Issue%20Briefs/NASRAHybridBrief.pdf>

## **PERS by the Numbers – Updated October 2018**

- Summary of information about system demographics, benefits, funding, revenue, and history

<https://www.oregon.gov/pers/Documents/General-Information/PERS-by-the-Numbers.pdf>

## **PERS Agency Website**

- PERS website

<https://www.oregon.gov/pers/Pages/index.aspx>

# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



# Thank You

Kevin Olineck  
PERS Director  
2019

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