

Public Employees Retirement System

	2017-19 Actual	2019-21 Legislatively Adopted	2019-21 Legislatively Approved *	2021-23 Current Service Level	2021-23 Governor's Budget
General Fund	--	100,000,000	64,751,802	--	--
Lottery Funds	--	--	--	--	19,337,052
Other Funds	95,220,643	263,256,648	210,227,306	123,831,063	151,698,075
Other Funds (NL)	10,928,474,109	12,504,627,192	12,504,627,192	12,886,613,593	12,919,864,593
Total Funds	11,023,694,752	12,867,883,840	12,779,606,300	13,010,444,656	13,090,899,720
Positions	376	419	419	379	424
FTE	371.31	414.32	414.32	379.00	422.80

* Includes Emergency Board and administrative actions through January 2021

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 deferred compensation program for state agencies and some local governmental units. Due to its complexity, the PERS system is costly to administer. PERS is the second-most complex pension system in North America.

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 2021-23 current service level budget for the agency totals \$13 billion total funds, which includes 12.9 billion in benefit payments and \$123.8 million in agency operational costs. The budget includes 379 positions (379.00 FTE). The CSL is \$230.8 million, or 1.8%, more than the 2019-21 legislatively approved budget of \$12.8 billion and includes 40 fewer positions (35.3 FTE). The primary driver of this change is the elimination of one-time implementation funding for SB 1049 (2019). The budget includes a reorganization of some administrative support functions between divisions.

There is one reoccurring issue for the agency's current service level, which is the continuation of a limited duration Accounting Technician 3 position (1.00 FTE) for the 2021-23 biennium. This position manages the overpayment collection program related to the Strunk & Eugene court cases.

Policy Issues

Each legislative session policy measures are introduced to modify PERS benefits and there are a number of such measures that have been introduced for the Legislative Session in 2021. PERS has requested the introduction of a measure to refine portions of SB 1049 (2019) to more effectively implement the legislative intent of the measure. The Legislature in 2021 will hear from the agency about how successful SB 1049 (2019) has been in reducing employer contribution rates.

By statute, PERS will be reporting to the Legislature on preliminary earnings crediting and SB 1566 (2018) and more specifically the status of the Employer Incentive Fund, the School Districts Unfunded Liability Fund (SDULF) and the Unfunded Actuarial Liability Resolution Program as of December 2020. The Employer Incentive Fund program began accepting applications from PERS employers on September 3, 2019 and the application cycle closed on December 1, 2020. The program provided up to a 25% match to 89 employers making a lump sum payment of \$25,000 or more from non-borrowed funds. Notwithstanding a \$35.2 million reduction in the original \$100 million General Fund appropriation used to fund the state match, the program is expected to bring in \$342.4 million in total funds into the system, including \$272.8 million in employer contributions, \$64.8 million in state matching funds, and \$4.9 million in additional transition liability payments. PERS reports there will be no distribution from the SDULF during this biennium.

SB 1049 (2019) also added assets to the system by dedicating all net lottery revenues from sports betting games revenue to the Employer Incentive Fund to fund the state's 25% match on qualifying employer side accounts. The Department of Administrative Services - Office of Economic Analysis (OEA) forecasts approximately \$19.3 million in Lottery Fund revenue from sports betting for the 2021-23 biennium. In addition, DAS-OEA expects a transfer of proceeds from Estate taxes in the amount of \$33.3 million to the SDULF during 2021. No proceeds from Capital Gains taxes, transfers from interest on unclaimed property, nor proceeds from debt collection are expected in 2021.

Lastly, the Legislature will want to closely follow the administrative-decision making process of the PERS Board as the Board may consider changing the assumed earnings rate. The lowering of the assumed earnings rate would result in higher employer contributions. In addition, the Legislature will want to monitor the actual earnings of the PERS portfolio during these uncertain economic times as a decline in actual earnings also results in higher employer contributions. In February of 2021, the PERS Board noted that the most current return data as of December 2020 for the Oregon Public Employee Retirement Fund was 7.66% or above the 7.2% assumed earnings rate.

Other Significant Issues and Background

There are a number of issues that will need to be considered during the Legislative session.

2021-23 Employer Contribution Rates - The budgeted employer contribution rate for state government agencies (non-Police and Fire) will increase from the 2019-21 budgeted rate of 16.39% to 17.13%, or by an additional 0.74% (a change of +4.5%), of PERS-eligible payroll for the 2021-23 biennium's budget development process. The average redirect offset between benefit plans is 1.14%. The total funds for PERS contribution for state government agencies at the current service level is \$1.1 billion, with 49% funded with General and Lottery Funds.

There may be an opportunity for rate adjustments during the Legislative Session as the Governor's budget was based on preliminary rather than Board-adopted rates.

The UAL is the excess of the actuarial accrued liability over the actuarial value of assets. The system-wide UAL for the most recent valuation (2019) stands at \$19.1 billion, after \$5.8 billion in side account offsets. The state government share of the system-wide UAL is \$6.3 billion (30% of total), after accounting for \$1.6 billion in pre-paid side account contributions. As an aside, PERS has produced a report of the estimated UAL attributable to each state agency; however, agencies do not currently have self-funded side accounts established.

SB 1049 (2019) Implementation (\$22.5 million Other Funds and 35 positions/35.00 FTE) - PERS has divided SB 1049 into five projects: (1) work after retirement; (2) salary limits; (3) member redirect; (4) employer programs; and (5) member choice. Of note is that PERS has already completed separate direction to re-amortize Tier 1 and Tier 2 Unfunded Actuarial Liabilities, on a one-time basis, from 20-years to 22-years. Last year, after an expedited legal challenge, SB 1049 (2019) was ruled constitutional by the Oregon Supreme Court. Primary oversight of the project(s) is being undertaken by the Department of Administrative Services - Office of Chief Information Officer.

PERS continues to report that they are within scope and budget and will get four of the five projects completed by June 30, 2021. Member redirect has been pushed out for completion in the 2023-25 biennium. The lack of an enterprise, integrated, resourced schedule, makes it very difficult for oversight to determine the actual state of the five SB 1049 projects. There may be a number of temporary automated and manual functions/components included in the "permanent solutions." PERS is directed by budget note to report to Joint Committee on Information Management and Technology to report status for the past two years on SB 1049. Independent quality assurance is being conducted by Gartner and of note is that significant contracting has been undertaken with Deloitte to address implementation and operational issues. Only relatively recently has PERS begun reporting that the implementation of SB 1049 has begun to have an adverse impact to routine agency operations, such a slowing of the processing of retirement applications. This impact is due to the implementation of the Employee Pension Stability Fund (EPSA) in July 2021 and the manual processing associated with integrating EPSA into calculations which reinforces the need to fully integrate/automate the EPSA into all required system calculation routines. This operations impact will likely continue into the 2021-23 biennium. The Governor's budget added \$22.5 million Other Funds for SB 1049 (2019) implementation, which was not included in the agency request budget.

Warm-Site Disaster Recover/Business Continuity Program Projects (\$1.2 million Other Funds/1 position/0.88 FTE) - PERS has notified the Legislative Fiscal Office that it is pausing work on their warm-site Disaster Recover/Business Continuity Program project (which has been ongoing for the last two biennia) and that the staff working on the warm-site effort will be moved to the co-location of PERS's data center at the SDC. In both cases, neither effort will be completed (again) by the legislative expected June 30, 2021 due date. PERS blamed the warm-site project's delay on the inability of the telecommunications network solution to handle the transaction traffic required to keep the "backup site" system current (in a timely manner) with the "state" of the PERS resident system databases. PERS has been requested by LFO to provide a written report on these issues in anticipation of a possible Joint Committee on Information Management and Technology as well as

the Joint Committee on Way and Means reports to again explain why the agency has yet to complete these long-standing critical initiatives. These foundational issues should be resolved as a prerequisite to any further information technology investment in the agency and needs to be independently verified.

Information Technology - Modernization (\$9.8 million Other Funds) - For the fourth time in as many biennia, PERS would like to begin planning for modernizing the agency's outdated and inflexible information technology infrastructure. There is a backlog of information technology issues requiring investments. This request also includes funding for a Customer Relationship Management (CRM) capability for the agency to provide better customer service.

Information Technology - Individual Account Program - The IAP project was to be the in-sourcing of most IAP functionality; however, the project experienced a major change in scope, schedule, and budget after first being approved by the Legislature in 2013. The project was subsequently abandoned by PERS after continued funding was not considered by the Legislature. The actual status of the IAP program merits review as PERS appears to have shifted more responsibility and functionality back to the vendor. According to the agency, IAP "...work will ultimately be planned and integrated into modernization work and the vendor has added functionality to support voluntary contribution functionality on our site due to SB 1049."

Operations (\$1 million Other Funds and seven position/6.16 FTE) - PERS requests \$278,924 Other Funds to add two permanent positions to the Death Unit and three additional Limited Duration positions within the Data Services Section to introduce a standalone team whose purpose would be to address the continuously growing data issues and impacts associated with Qualifying/Non-Qualifying employment. PERS is also requesting additional staffing for the agency's "Education Team" to include one Retirement Counselor 2 (RC2) Presenter and one Administrative Specialist 2 (AS2), for the Member Services' Education Team to provide information, education, and assistance to members.

Communications (\$275,324 Other Funds and one position/0.88 FTE) - One permanent full time Electronic Publishing and Design Specialist 3.

Compliance, Audit, and Risk Management Division (\$662,500 Other Funds and one position/0.88 FTE) - The request is to create a Enterprise Risk Management Program that uses strategic and business plans and risk management tools to support a risk-based decision making process.

Deferred Maintenance (\$702,988 Other Funds) - PERS is requesting funding related to SB 1067 (2017) for: COVID safety and facility re-occupation-related projects; generator modification, skylight replacement, data center area remodel; and roof solar power.

Audits: The Legislature in 2020 received the first actuarial review of the reasonableness and consistency actuarial methods and assumptions adopted by the PERS Board and PERS also has completed the agency's Comprehensive Annual Financial Report for fiscal year ending June 30, 2020.

Governor's Budget

The 2021-23 Governor's budget totals \$13.1 billion total funds, which includes 12.9 billion in benefit payments and \$151.7 million in agency operational costs. The budget includes 424 positions (422.80 FTE). The Governor's budget is \$311.3 million, or 2.4%, more than the 2019-21 legislatively approved budget of \$12.8 billion and includes five more positions (8.50 FTE). The Governor's budget added \$22.4 million Other Funds for SB 1049 (2019) implementation, added \$19.3 million Lottery Funds and \$33.3 million Other Funds Nonlimited. The Governor's budget substantially approved all other agency request policy packages; however, the agency request budget nor the Governor's budget included ongoing General Fund matching funds for the Employer Incentive Fund program.

Reduction Options

Reduction options for PERS may include, as part of the Governor's budget, Lottery Fund revenues. With that said, reduction to Other Funds translate to a lower withdrawal of administrative costs from gross trust fund earnings (when earnings are positive) thereby allowing for trust funds to retain more earnings, which reduces employer contribution rates; such administrative savings are financially de minimis when compared to overall system funding requirements, but nonetheless material for a state agency.