

<b>Public Employees Retirement System</b>					
	<b>2019-21 Actual</b>	<b>2021-23 Legislatively Adopted</b>	<b>2021-23 Legislatively Approved *</b>	<b>2023-2025 Current Service Level</b>	<b>2023-25 Governor's Budget</b>
General Fund	64,570,045	--	17,250,000	--	--
Lottery Funds	--	16,792,239	19,461,706	16,792,239	22,056,622
Other Funds	199,335,978	146,993,665	171,611,372	132,007,763	163,770,893
Other Funds (NL)	11,694,349,081	12,886,613,593	12,886,613,593	13,523,120,517	13,523,120,517
<b>Total Funds</b>	<b>11,958,255,104</b>	<b>13,050,399,497</b>	<b>13,094,936,671</b>	<b>13,671,920,519</b>	<b>13,708,948,032</b>
Positions	417	423	429	384	440
FTE	412.28	421.92	424.67	384.00	437.57
* Includes Emergency Board and administrative actions through December 2022					

#### 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 ranked as the second-most complex pension system in North America.

The budget is organized into the following program areas: Tier One and Tier Two Pension Programs, Employer [Unfunded Actuarial Liability] Resolution Program, Retirement Health Insurance Program(s), Oregon Public Service Retirement Pension Program, Individual Account Program, Central Administration Division, Financial and Administrative Services Division, Information Services Division, Operations Division, Compliance, Audit, and Risk Division, and Core Retirement Systems for information technology investments.

PERS benefits are funded by employer and employee contributions and investment earnings as well as retiree healthcare insurance premium payments. PERS also receives a nominal amount of fee and miscellaneous revenues. Administratively, PERS is primarily financed by revenue transfers from the various benefit trust funds administered by the agency. ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. Employer contributions into PERS may originate as General Fund.

PERS employer incentive funds are or may be funded with a combination of General, Lottery Funds, and General as Other Funds. Lottery Funds are from sports betting, and General as Other Funds are from excess revenues from debt collection, capital gains, estate taxes, interest on unclaimed property. The two incentive funds are (SB 1566, 2018):

- Employer Incentive Fund - used for a 25% match program for employer cash side account contributions, which are for pre-paid employer contributions held in trust by PERS. The revenue sources of the Fund have been one-time federal decoupling revenue, Lottery Funds from sports betting and one-time General Fund. The Department of Administrative Services - Office of Economic Analysis sports betting revenue forecast for the EIF (December 2022), is \$15.3 million for the 2021-23 biennium, \$21.7 million for the 2023-25 biennium, \$27.8 million for the 2025-27 biennium, \$29 million for the 2027-29 biennium, and \$32 million for the 2029-31 biennium. PERS also is reporting a 2021-23 Lottery Funds ending balance of \$341,000. Sports betting revenue for the EIF sunsets on December 31, 2041. One-time General Fund matching contributions have totaled \$81.4 million. The EIF itself sunsets on July 1, 2042.
- School Districts Unfunded Liability Fund (SDULF) - The PERS Board is required to create this pooled side account for school districts and proportionately distribute the side account among all school districts as an offset to employer contribution rates. The PERS Board will not deploy deposits to offset school district pool rates until a \$466.5 million funding threshold is obtained. The threshold represents one percent of the school district's payroll valuation for the 2023-25 biennium (\$9 billion or \$90.4 million) multiplied by an estimated amortization factor of 5.16%. The fund currently has a balance of \$46.3 million (as of October 2022); however, the balance does not take into account the anticipated transfer of \$89 million in excess estate tax for the 2021-23 biennium. At present, no further deposits into the SDULF are forecasted, other than interest earnings. Based on an estimated balance of \$135.3 million, the SDULF is \$331.2 million short of the PERS threshold and therefore no distribution or school district rate offset from the fund is anticipated for the 2023-25 biennium.

Three SDULF revenue provisions are slated to repeal or sunset during the 2023-25 biennium: excess capital gains (limited to calendar years 2019, 2021, and 2023); excess estate tax (limited to calendar years 2019, 2021, and 2023); and excess debt collections (December 31, 2024). Of these revenue streams, only excess estate tax (\$89 million per the most recent Department of Administrative Services - Office of Economic Analysis revenue forecast for December 2022) and the unclaimed property transfer (\$45.5 million) have produced revenue for the SDULF. There have been no revenues deposited into the account from either excess debt collection or capital gains. The unclaimed property transfer provision will sunset during the 2027-29 biennium on January 2, 2027. The SDULF itself has no sunset date.

#### CSL Summary

The 2023-25 current service level budget for the agency totals \$13.7 billion total fund, which includes \$13.5 billion in Other Funds benefit payments, \$132 million in agency operational costs, and \$16.8 million in Lottery Funds for state matching funds to incentivize employer side accounts. The budget includes 384 positions (384 FTE). The CSL is \$577 million, or 4.4%, more than the 2021-23 legislatively approved budget of \$13.1 billion and includes 45 fewer positions (40.67 FTE). The budget is comprised of \$94.7 million (or 0.7%) personal services, \$132.7 million (or 1%) for services and supplies, \$697,003 (or 0.01%) capital outlay, and \$13.4 billion (or 98.3%) special payments. The PERS CSL for Lottery Funds (Sports Betting) is an estimated \$2.7 million below forecast (March 2022) and does not take into consideration any ending balance carryforward.

**Base Budget Adjustment (\$634.2 million Other Funds; <39 positions/37.92 FTE)** - offsetting adjustments to the base budget include standard personal service, the phase-in of permanent full-time positions, adjustments to the payment of benefits, and the phase-out of one-time SB 1049 (2019) implementation costs.

**Phase-Outs (<\$56.1 million Total Funds>)** - Major phase-outs include: \$17.3 million General Fund, \$2.7 million Lottery Funds, and \$17.3 million Other Funds for state matching funds for the Employer Incentive Fund; \$19.9 million for one-time implementation funding for SB 1049 (2019); \$800,000 for Modernization; \$825,000 for Production Data Center Migration; and \$425,000 for deferred maintenance.

**Phase-In (\$0 million)** - none.

**Inflation Adjustment (\$3.1 million Other Funds)** - for standard inflationary adjustments.

#### Policy Issues

PERS has submitted the following legislation: (a) HB 2283 related to the modernization initiative and seeks to align statute with agency operational practices; (b) HB 2284 to increase the statutory divorce decree fee from \$300 to \$1,300; and (c) HB 2285 updates outdated statute related to Social Security administration. PERS did not submit an associated policy package for these LCs. Other (non-PERS) legislatively introduced concepts could have a budgetary impact to PERS.

#### Governor's Budget Summary

The Governor's budget is \$13.7 billion total fund, which includes \$13.5 billion in benefit payments and \$163.8 million in agency operational costs. The budget includes 440 positions (437.57 FTE). The requested budget's operational costs are \$31.8 million, or 24%, more than the CSL and includes 56 more positions (53.57 FTE). The budget includes the following policy package:

#### **Implementation of PERS Reform(s) (SB 1049, 2019)**

- Package #101 SB 1049 Implementation (\$18.1 million Other Funds; 20 limited duration positions/20.00 FTE)(Agency Priority #1) - continuation of resources to complete the implementation of SB 1049.
- Package #102 SB 1049 Permanent Full-Time Equivalents (\$1.9 million Other Funds; nine permanent full-time positions/9.00 FTE) (Agency Priority #2) - nine limited duration positions approved as part of the SB 1049 implementation program become permanent full-time positions to perform various operational duties.

#### **Operational Investments**

- Package #106 PERS Health Insurance Plan Administration (\$367,960 Other Funds)(Agency Priority #6) - supplemental funding for a new vendor contract with \$500,000 of the cost being offset with the transfer of existing budget authority.

- Package #108 Retirement Workload (\$161,205 Other Funds; one permanent full-time position/0.88 FTE)(Agency Priority #8) - adding one Retirement Counselor 2 to address escalating Call Center volumes.
- Package #109 Qualifying/Non-Qualifying (\$523,653 Other Funds; three limited duration positions/3.00 FTE)(Agency Priority #9) - extend for a second biennium three limited duration positions to augment the Data Services Section to address qualifying/non-qualifying employment eligibility issues. The agency would undertake a more proactive approach to verify the accuracy of membership data based on eligibility laws and requirements and each member's unique employment data.
- Package #110 Position Reclassification (\$58,744 Other Funds)(Agency Priority #10) - reclassification of three Retirement Counselor 1 positions to Retirement Counselor 2s and one Retirement Counselor 2 to an Operations and Policy Analyst 1.
- Package #111 Agency Support Services (\$365,613 Other Funds; two permanent full-time positions/1.88 FTE)(Agency Priority #11) - add a Human Resources 3 analyst and to convert one limited duration Office Specialist 2 to a permanent full-time position.

### **Information Technology**

- Package #105 Information Technology Hardware and Subscriptions (\$2.2 million Other Funds)(Agency Priority #5) - Funding for a seven-year lifecycle replacement of end-of-life and support for ORION hardware.
- Package #107 Maintain Current Service Levels (\$90,585 Other Funds; five permanent full-time position/4.40 FTE)(Agency Priority #7)- insource five new positions to address growing complexity within information technology, with most funding coming from a reduction of \$1 million in professional services.

### **Modernization**

- Package #103 ORION Modernization (\$9.6 million Other Funds; 15 permanent full-time and one limited duration positions/14.41 FTE)(Agency Priority #3) - funding for the ORION Modernization Program with the first phase being the implementation of a Customer Relationship Management Program.

PERS did not submit policy packages associated with any legislative concept or to request General Fund match for either the EIF or the SDULF. The agency should have submitted a policy package related to HB 2284 to increase the statutory divorce decree fee from \$300 to \$1,300 given the measure's impact on both agency revenue and Other Funds expenditure limitation. Fee revenue under the measure will increase from \$240,000 to over \$1 million or \$800,000 (or 333%), based on 800 divorces.

### Other Significant Issues and Background

In addition to agency operations, noteworthy is the overall all status of the retirement system due to the system's budgetary implications to state and local entities. Overall, PERS has assets of \$85 billion, of which \$6.6 billion are side accounts, liabilities of \$98.4, and Unfunded Actuarial Liability (UAL) of \$13.4 billion and a funded status of 86.4% (2021 actuarial valuation). Side account increased in value in 2021 from \$5.1 billion to \$6.2 billion or by \$1 billion (or 29%) with School Districts contributing over \$1.3 billion in Pension Obligation Bond-supported contributions. The assumed earnings rate was lowered by the PERS Board from 7.2% to 6.9%. The most recent investment earnings for

calendar year 2020 was \$16.3 billion or 19.6%. Average investment earnings between 2011-2021 was 9.5%. The UAL amortization period for Tier 1/2 remains at 20-years and 16-years for the Oregon Public Service Retirement Plan. The amortization periods for the health plans will go from a 10-year amortization period to a rolling 20-year amortization period, when the funded status of the health plans exceeds 100% funded status. The redirection of member contributions will reduce overall employer contribution rates by an average of 2.4% (2.4% for Tier 1/2 and 0.65% for OPSRP, which is down from 2.5% and 0.75%, respectively, given that not all members have salary over the current monthly limit of \$3,570 in 2023). The PERS Board modified significantly the rate collar policy. Rather than limiting the growth in employer contribution rates, the rate collar for the 2023-25 biennium is limiting the decline in employer contribution rates related to the UAAL. The cost of these various changes added \$3.4 billion to the UAL, of which \$2.9 billion is attributable to the reduction in the assumed earnings rate. HB 4159 (2018) provides for Individual Account Program member choice in investment selection. PERS and the Oregon State Treasury/Oregon Investment Council have limited choices to either an age-based target-date fund or investment in the Oregon Public Employees Retirement Fund. The annual cost-of-living increase is up to 2% for service time accrued before October 1, 2013 and after that date a lower rate, based on the PERS annual benefit. Service time accrued in both periods is “blended.”

### **SB 1049 (2019) Implementation**

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. Although four of the five projects have been completed, the project is behind schedule, with some scope changes, and over budget because the member direct project time, complexity, and cost were underestimated by PERS. PERS is in the process of rebaselining the implementation, which may now not be completed until 2024 or 2025. The project expended \$29 million during the 2019-21 biennium and is estimating to expend another \$23.2 million for the 2021-23 biennium. PERS is expecting to expend an additional \$20 million on the project in the 2023-25 biennium, which exceeds the amount of the Governor’s budget request by \$2 million Other Funds.

### **Modernization**

The overall PERS modernization proposal has yet-to-be approved by the Legislature; however the 2021 Legislature (SB 5536) and the Emergency Board (June 2022; Item #72) did approve pre-planning funding. A modernization effort of the scale, scope, complexity, costs, risks, and immediacy proposed by PERS has a highly elevated risk profile. An interruption to the payment of benefits would have a direct economic impact to the retirees/beneficiaries as well as the state’s economy. Therefore, to minimize such risks, a PERS modernization effort should be undertaken only after extensive pre-planning and modernization planning efforts, including active stakeholder participation, and the services of an independent quality assurance vendor. Such planning efforts are expected to take several years to complete and must be done prior to beginning any targeted modernization effort (e.g. the proposed modernization of the ORION System and related business processes). The PERS modernization program is viewed as being far more extensive of an initiative than the agency’s implementation of SB 1049 and the agency’s completion of the Production Data Center and Backup Data Center projects are deemed critical preconditions to any modernization effort. There already have been identified many specific areas of concern with the agency’s modernization proposal.

### **Disaster Recovery/Business Continuity/Backup Data Center**

For the last four biennia, PERS has yet to fully deliver on critical Disaster Recover/Business Continuity Program deliverables directed and funded by multiple legislatures. While PERS did move the agency's on-site data center to the Department of Administrative Services - State Data Center (DAS-SDC), the agency and the Department of Department of Administrative Services - Chief Information Office (DAS-CIO) need to more fully explain why PERS was allowed to choose co-location over managed services thereby sidestepping may inherent security and other advantages offered by the DAS-SDC managed services. In addition, PERS has failed to develop a viable warm-site. These critical requirements pose an extraordinary risk to PERS members, especially retirees, and urgently need to be resolved as a prerequisite to any further information technology investment in the agency and needs to be independently verified. Lastly, DAS-CIO does not have PERS listed as a Priority One agency for recovery in the event of a catastrophic event or emergency.

### **PERS Internal and External Audit Function and Statutorily Directed Reviews**

The PERS Board has an Audit and Risk Subcommittee to oversee the performance of PERS' internal audit function, which includes including information security, business continuity and disaster recovery. PERS has completed four external audits and eleven internal audits. There has also been an independent actuarial review of the reasonableness and consistency actuarial methods and assumptions adopted by the PERS Board, as required by statute. PERS has also conducted "equal to or better than" reviews, as required by statute every 12 years, of entities that have chosen to be exempt from participation in PERS. PERS has also continued participation in a national benchmarking survey of North American pension plans.

### **Statutory Reporting**

The 2023 Legislature is expecting to receive the following reports: (a) ORS 238.670(5) requires the PERS Board to submit a report to the Legislature on the Board's preliminary plan to credit calendar year earnings of the Oregon Public Employees Retirement Fund (OPERF) to member and employer accounts and other reserves. Under the statute, the Board must provide the report at least 30 days before the Board makes its final earnings crediting decision; and (b) SB 1566 (2018) required PERS to report during each regular session to the Joint Committee on Ways and Means on the status of the School Districts Unfunded Liability Fund, Employer Incentive Fund, and the Unfunded Actuarial Liability Resolution Program that were established by SB 1566 (2018).

Although not formally requested, the 2023 Legislature should also expect to receive updates on the PERS modernization planning effort funded by the Emergency Board as well as the Disaster Recovery/Business Continuity/Backup Data Center.

### **Key Performance Measures**

A copy of the PERS Annual Performance Progress Report can be found on the LFO website:

[https://www.oregonlegislature.gov/lfo/APPR/APPR\\_PERS\\_2022-09-22.pdf](https://www.oregonlegislature.gov/lfo/APPR/APPR_PERS_2022-09-22.pdf)