

OREGON PERS

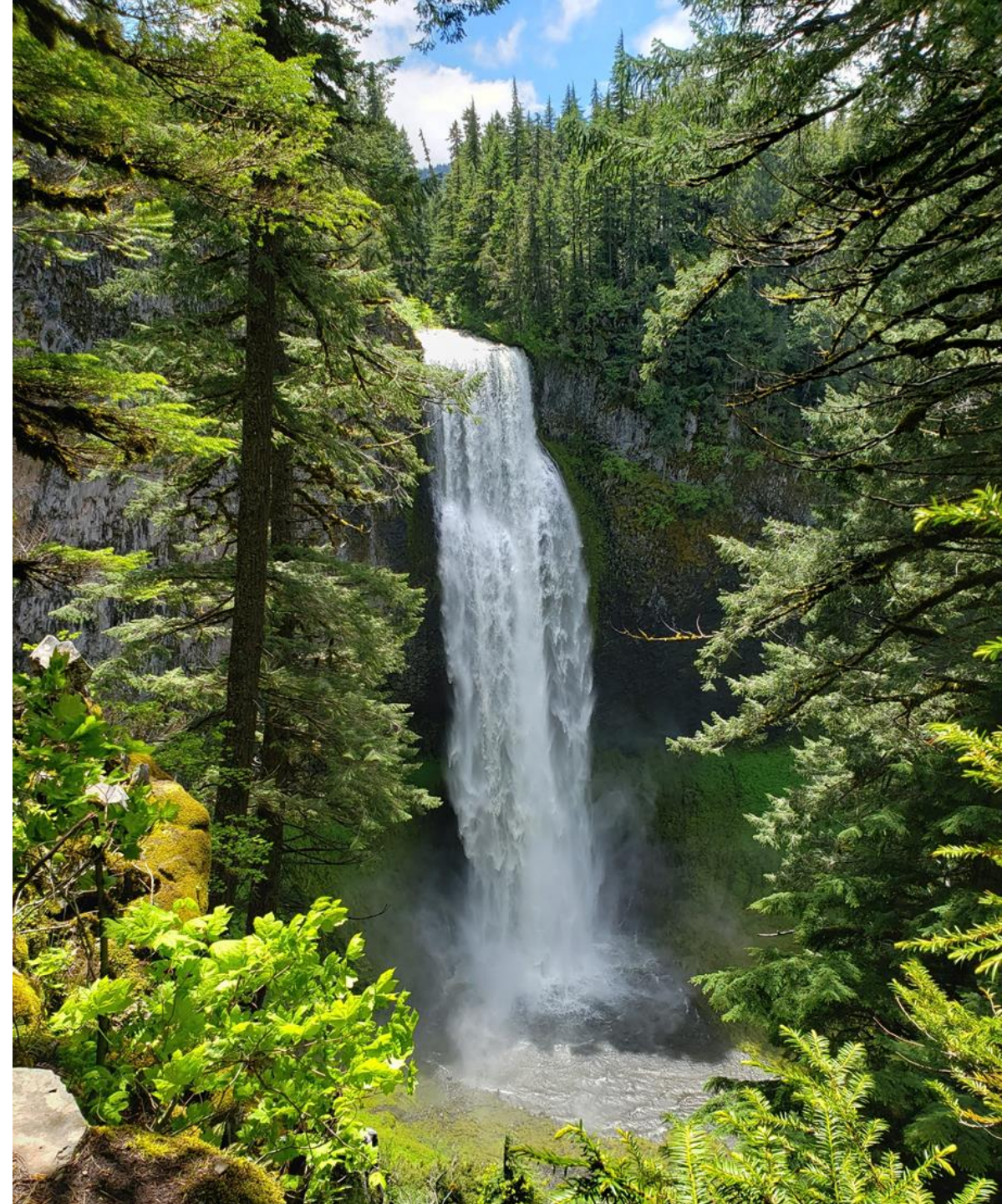
PUBLIC EMPLOYEES RETIREMENT SYSTEM



PERS Overview

House Committee on
Labor and Workplace Standards
February 5, 2025

Kevin Olineck
Director

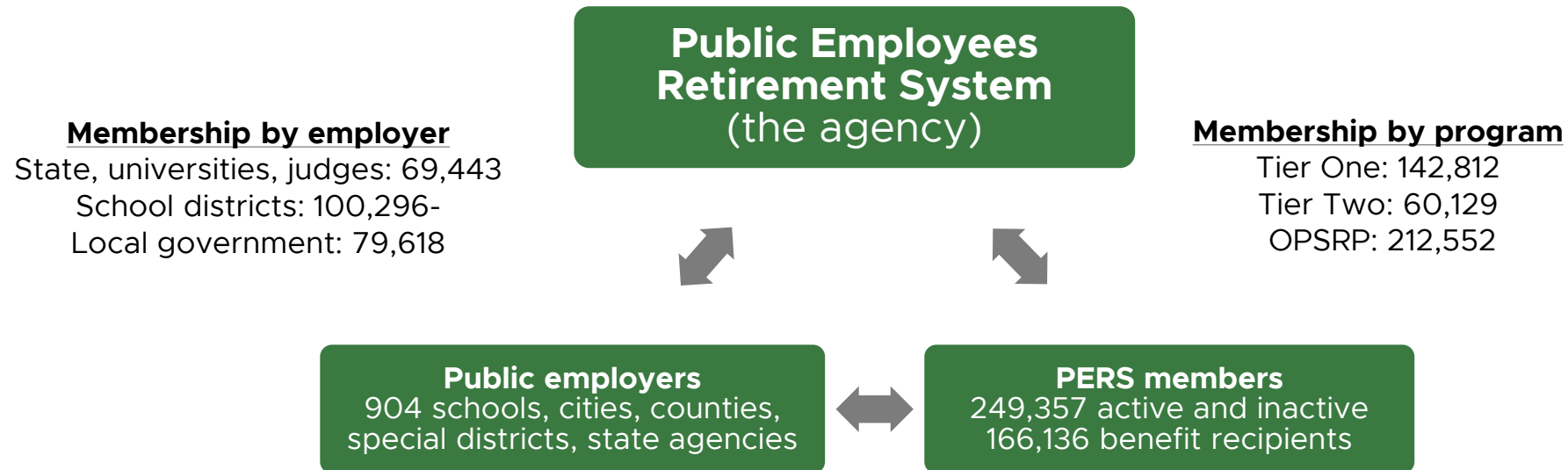


PERS overview and partnerships

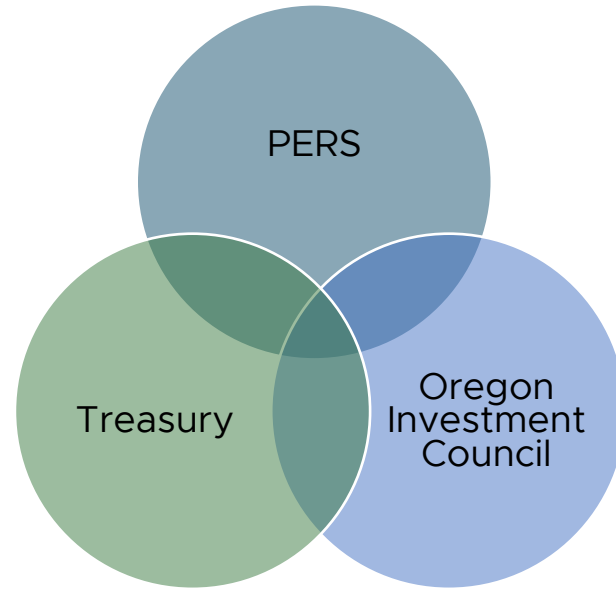
(as of June 30, 2024)

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 415,000 current and former public employees or their beneficiaries.



Interdependencies with other entities



- For the Tier I, Tier II, OPSRP and IAP Programs, PERS is responsible for maintaining an adequate balance of funds for estimated benefit payments and administrative costs, while being able to maximize amounts invested. PERS provides Treasury with cash flow forecasts, which include an estimated investment buy and sell on each month. Treasury is responsible for managing PERS investments according to policies established by Oregon Investment Council (OIC).
- Similarly, for the Oregon Savings Growth Plan (OSGP), the PERS Board provides oversight of the administration and the OIC is responsible for the oversight of the investment program.

A system composed of trusts

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

| Statute and chapter | Program |
|------------------------------|--|
| ORS 237 and 238 | Tier One and Tier Two |
| 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 (reference chapter 459) govern the implementation of PERS' statutory responsibilities.

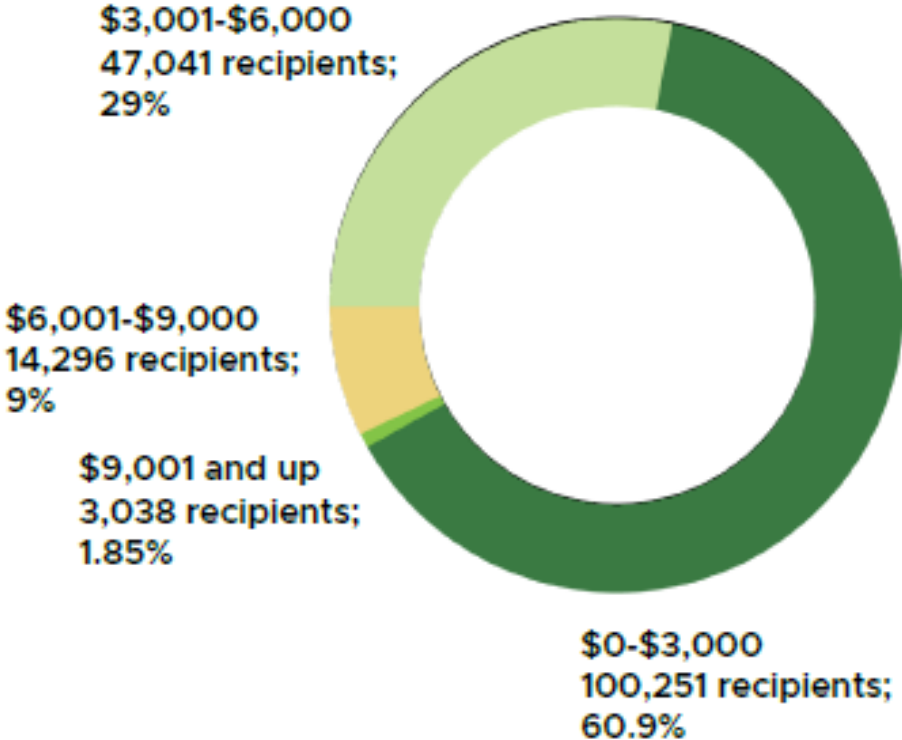
A history of complexity

- Between 1945 and 2022, the Legislature has approved close to 80 changes to PERS plans. These changes continuously increase the complexity of the plans and plan administration.
- Major recent changes include:
 - 2003: Establishment of the OPSRP program.
 - 2005–2007: Refinement and modification to the 2003 plan changes.
 - 2009-2010: Changes to data verification processes and the allowance of purchases using pre-tax funds.
 - 2011: Changes to tax remedy – prohibiting PERS from paying a tax remedy increase if a person is not a resident of Oregon or not subject to Oregon personal income tax for those eligible members who retire on or after January 1, 2012.
 - 2013: Cost-of-living reductions, addition of a temporary annual supplementary payment and elimination of all tax remedy payments for retirees who do not pay Oregon income taxes because they do not live in Oregon.
 - 2015: *Moro decision* – Oregon Supreme Court ruling that declared most of the 2013 reforms unconstitutional.
 - This *decision* resulted in the recalculation of 120,000 benefit accounts.
 - 2018: Reform efforts focused on creating relief programs for employer rate increases. Establishment of the Employer Incentive Fund, the Unfunded Actuarial Liabilities Resolution Program, and a side account for school district rate relief (funded by various revenue streams).
 - 2019: Senate Bill (SB) 1049: A comprehensive piece of legislation intended by the Oregon Legislature to address the increasing cost of funding Oregon PERS by providing relief to public employers for escalating PERS contribution rate increases.
 - 2024: House Bill 4045: Added district attorneys to the Police and Fire member classification, lowered the retirement age for Police and Firefighter members in OPSRP both with an effective date of January 1, 2025, and added a new job classification, Hazardous Positions, with an effective date of January 1, 2030.
- ❖ More detail in the Appendix.

Who gets paid how much?

MONTHLY BENEFIT PAYMENT AMOUNTS AS OF JANUARY 2024

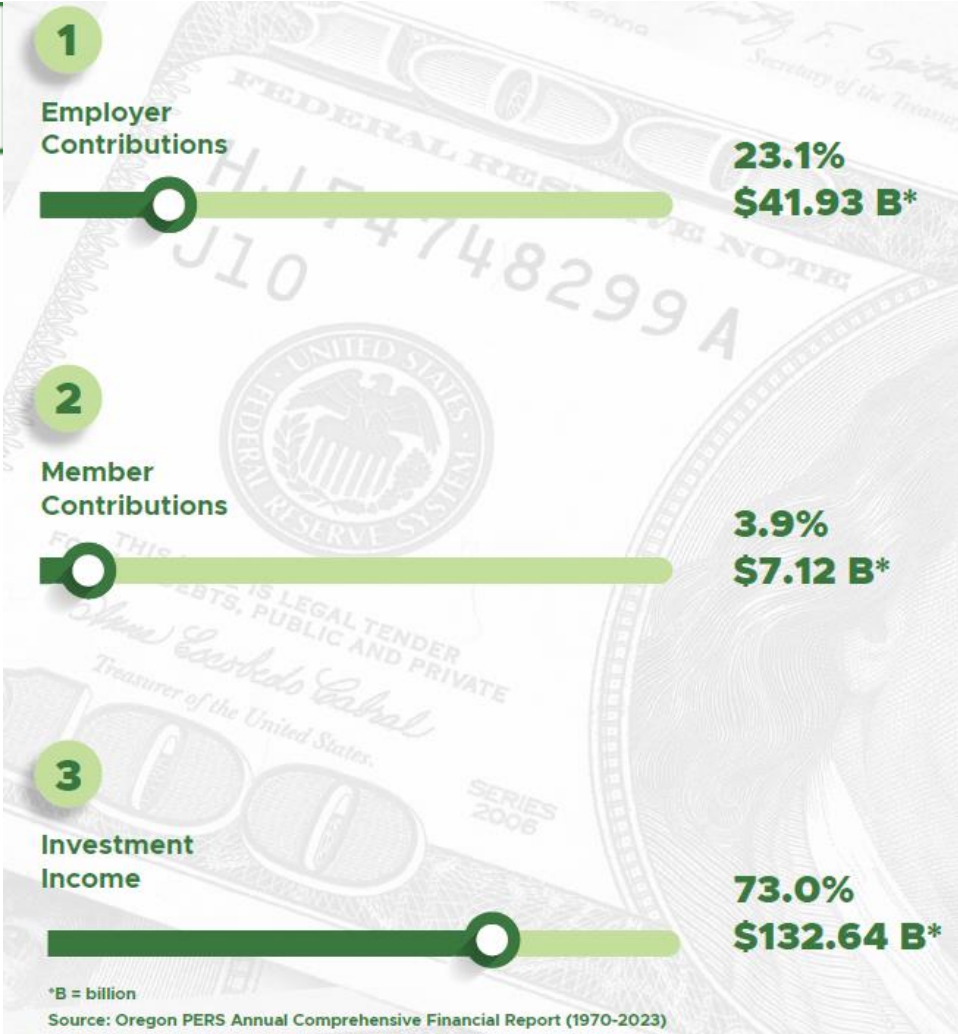
Based on 164,626 monthly benefit payments totaling \$476.8 million for the month of January 2024 (includes alternate payees and survivors; excludes lump-sum and unit payments). Benefit payment amounts include compounded annual cost-of-living adjustments (COLA) and other post-retirement benefit adjustments.



Average annual benefit: \$34,762.
Median annual benefit: \$27,647.

How has PERS been funded?

MONEY FOR PERS RETIREMENT COMES FROM THREE SOURCES (1970-2023)



Funded status and unfunded actuarial liability (UAL)

| System-Total Pension Funded Status (\$ billions) | | | |
|--|----------------------------|------------------------|----------------------------|
| Valuation: | 12/31/2021 Rate-Setting | 12/31/2022 Advisory | 12/31/2023 Rate-Setting |
| Assumed return: | 6.90% | 6.90% | 6.90% |
| Actuarial liability | \$ 98.4 | \$ 102.9 | \$ 106.4 |
| Assets (excluding side accounts) | <u>78.4</u> | <u>74.9</u> | <u>77.0</u> |
| UAL (excluding side accounts) | \$ 20.0 | \$ 28.0 | \$ 29.4 |
| Funded status (excluding side accounts) | 80% | 73% | 72% |
| Side account assets | <u>\$ 6.6</u> | <u>\$ 6.2</u> | <u>\$ 5.4</u> |
| UAL (including side accounts) | \$ 13.4 | \$ 21.8 | \$ 24.0 |
| Funded status (including side accounts) | 86% | 79% | 77% |

Table provided by Milliman, PERS' actuary.

PERS benefit component comparison

| | Tier One Pension | Tier Two Pension | OPSRP Pension | IAP |
|--------------------------------|--|--|---|--|
| Normal retirement age | 58 (or 30 yrs.) P&F: age 55 or 50 w/25 yrs. | 60 (or 30 yrs.) P&F: age 55 or 50 w/25 yrs. | 65 (58 w/30 yrs.) P&F: age 60 (review P&F five-year requirement below) or 53 w/25 yrs. | Members retire from IAP when they retire from Tier One, Tier Two, or OPSRP |
| Early retirement | 55 (50 for P&F) | 55 (50 for P&F) | 55. 50 w/5 years of continuous service in a P&F position immediately preceding effective retirement date. | Members retire from IAP when they retire from Tier One, Tier Two, or OPSRP |
| Regular account earnings | Guaranteed assumed rate annually (currently 6.9% as of 1/1/2022) | No guarantee; market returns | N/A; no account balance. Member contributions are held in the IAP account. | No guarantee; Target-Date Fund returns |
| Variable account earnings | Market returns on 100% global equity portfolio | Market returns on 100% global equity portfolio | N/A; no member account | N/A |
| Retirement calculation methods | Money Match, Full Formula, or Formula + Annuity (if eligible) | Money Match or Full Formula | Formula | Various account payout options or rollover |

PERS benefit component comparison

| | Tier One Pension | Tier Two Pension | OPSRP Pension | IAP |
|---|---|-----------------------------|-----------------------------|---|
| Full Formula benefit factor | 1.67% general; 2.00% P&F | 1.67% general; 2.00% P&F | 1.50% general; 1.80% P&F | N/A |
| Formula + Annuity benefit factor | 1.00% general; 1.35% P&F | N/A | N/A | N/A |
| Oregon state income tax remedy | Payable to eligible benefit recipients who pay Oregon state income tax because they reside in Oregon. | No tax remedy provided | No tax remedy provided | N/A |
| IAP contributions are paid on lump-sum vacation payouts | Yes | Yes | No | Yes for Tier One and Tier Two; no for OPSRP |
| Lump-sum vacation payouts included in FAS | Yes | No | No | N/A |

PERS benefit component comparison

| | Tier One Pension | Tier Two Pension | OPSRP Pension | IAP |
|-----------------------------------|--|--|--|--|
| Unused sick leave included in FAS | Yes, if employer participates in the unused sick leave program | Yes, if employer participates in the unused sick leave program | No | N/A |
| Vesting | Active member in each of 5 calendar years | Active member in each of 5 calendar years | 5 calendar years w/ at least 600 hours qualifying service or normal retirement age | Immediate upon receiving account contributions |
| COLA (after retirement) | Each pension plan offers up to 2% annually for service earned on or before October 1, 2013, and a blended COLA rate for subsequent service | | | N/A; no COLA provided |

P&F = police and firefighters; FAS = final average salary; COLA = cost-of-living adjustment; N/A = not applicable

Note: PERS uses three methods to calculate Tier One retirement benefits: Full Formula, Formula+Annuity (for members who made contributions before August 21, 1981), and Money Match. PERS uses two methods to calculate Tier Two retirement benefits: Full Formula and Money Match. PERS uses the method (for which a member is eligible) that produces the highest benefit amount. OPSRP Pension Program benefits are based only on a formula method. *Beginning January 1, 2020, SB 1049 changed the definition of “salary” for PERS purposes and created new limitations on annual “subject salaries,” which may affect how PERS calculates a member’s pension and contributions. Beginning January 1, 2022, Senate Bill 111 changed the definition of “subject salary” for OPSRP members to include amounts that are or would be subject to Oregon state income tax.

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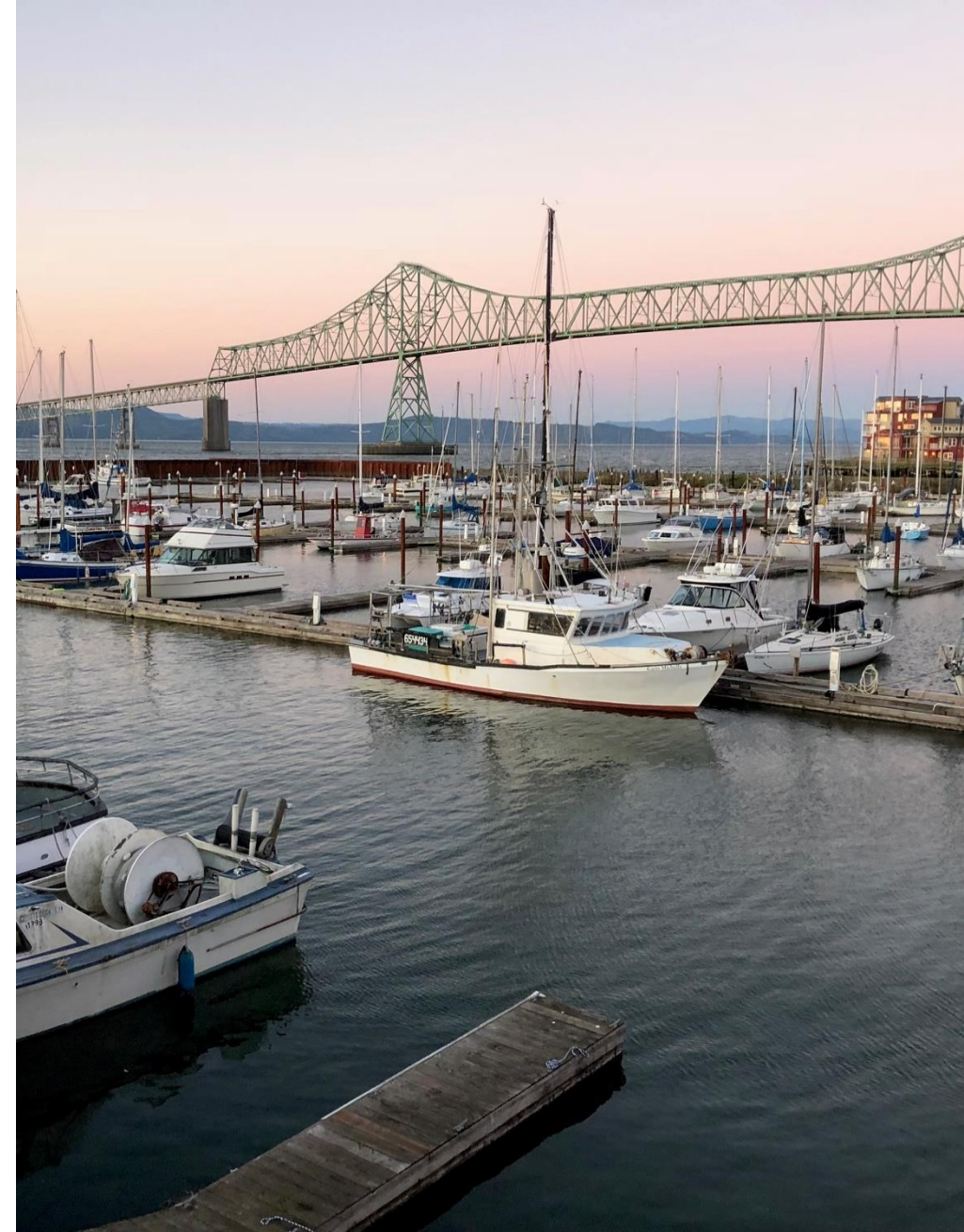


Thank you.



Appendix

- Legislative Changes Breakdown
- Additional resources.



History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|----------------------------------|--|-------------------|
| 1945 | Administrative | The Public Employees Retirement System is signed into law and begins business July 1, 1946, as a money match retirement plan | All |
| 1947 | Retirement Age/Vesting | Requirement for employees to serve a six-month waiting period before becoming PERS members begins | All |
| 1953 | Administrative | By law, the PERS plan is terminated and immediately reopened the next day, allowing public employers to provide Social Security coverage | All |
| 1967 | Investment Risk Allocation | Legislature passes a bill that allows PERS to invest up to 10% of the retirement fund in common stock, creates the Oregon Investment Council, and establishes a defined benefit formula for employer-funded retirement benefits (formula plus annuity) | All |
| 1969 | Investment Risk Allocation | Participation in variable account program begins | All |
| 1972 | Cost-of-living adjustment (COLA) | Implemented <i>ad hoc</i> COLA increase (12% to 25% benefit increase) | Existing retirees |
| 1972 | Cost-of-living adjustment | Initiated an annual COLA with a 1.5% cap | All retirees |
| 1973 | Benefit Calculation/Formula | Increased Formula Plus Annuity pension factors (General Service: .67 to 1.00; Police and Fire: 0.92 to 1.35) | Tier One |
| 1973 | Cost-of-living adjustment | Annual COLA cap raised from 1.5% to 2% | All retirees |

Key: Benefit enhancement Benefit cap or reduction

History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|-----------------------------|--|-------------------|
| 1973 | Cost-of-living adjustment | Capped COLA at actual inflation rate or 2%, whichever is less | All retirees |
| 1973 | Final Average Salary | Added accrued sick leave to retirement benefit calculation for participating employers | Tier One/Tier Two |
| 1974 | Cost-of-living adjustment | Implemented <i>ad hoc</i> increase (0% to 25% benefit increase) | Existing retirees |
| 1975 | Investment Risk Allocation | Initiated member account assumed rate guarantee | Tier One |
| 1975 | Investment Risk Allocation | Increased assumed earnings rate from 5.5% to 7% | Tier One |
| 1975 | Investment Risk Allocation | Credited member regular accounts with more than the assumed earnings rate* | Tier One |
| 1976 | Investment Risk Allocation | Gain Loss Reserve established to “self-fund” assumed earnings rate crediting | Tier One |
| 1979 | Administrative | Employers allowed to “pick up” member 6% contribution | All |
| 1979 | Investment Risk Allocation | Increased assumed earnings rate from 7% to 7.5% | Tier One |
| 1981 | Benefit Calculation/Formula | Added Full Formula benefit calculation method | All |
| 1981 | Benefit Calculation/Formula | Consolidated member contributions from 1% to 7% salary-based sliding scale to universal 6% | All |
| 1981 | Benefit Calculation/Formula | Eliminated Formula Plus Annuity benefit calculation method | Tier One |
| 1981 | Cost-of-living adjustment | Implemented <i>ad hoc</i> COLA increase (4% to 11.4% benefit increase) | Existing retirees |

Key: Benefit enhancement Benefit cap or reduction

History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|-----------------------------|--|-------------------|
| 1985 | Cost-of-living adjustment | Implemented <i>ad hoc</i> COLA increase (3% to 7.28% benefit increase) | Existing retirees |
| 1985 | Benefit Calculation/Formula | Added benefit option to allow lump-sum payment of member account | All |
| 1987 | Benefit Calculation/Formula | Members allowed to purchase six-month waiting period | All |
| 1987 | Benefit Calculation/Formula | New retirement benefit payout options added | All |
| 1989 | Cost-of-living adjustment | Implemented <i>ad hoc</i> COLA increase (0% to 25% benefit increase) | Existing retirees |
| 1989 | Investment Risk Allocation | Increased assumed earnings rate from 7.5% to 8% | Tier One |
| 1989 | Retiree Health Benefits | Established Medicare and state employee pre-Medicare insurance premium subsidies | Tier One/Tier Two |
| 1989 | Retiree Health Benefits | Capped Medicare premium subsidy at \$60 per month | Tier One/Tier Two |
| 1989 | Retirement Age/Vesting | Added “30 years of service” retirement regardless of age | Tier One/Tier Two |

Key: Benefit enhancement Benefit cap or reduction

History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|-----------------------------|---|------------------|
| 1991 | Benefit Calculation/Formula | Imposed state income tax on PERS benefits | All |
| 1991 | Benefit Calculation/Formula | Established service time-based state income tax offset benefit of between 1% to 4% (SB 656) | Tier One |
| 1993 | Administrative | Divorced spouses entitled to separate account from member's | All |
| 1995 | Benefit Calculation/Formula | Established state income tax offset benefit for pre-1991 service time (HB 3349) | Tier One |
| 1995 | Benefit Calculation/Formula | Eliminated tax remedy for anyone hired after July 14, 1995 | All new hires |
| 1996 | Final Average Salary | Excluded lump-sum vacation payouts from final average salary | Tier Two |
| 1996 | Investment Risk Allocation | Eliminated guaranteed return on regular accounts for new members | Tier Two |
| 1996 | Retirement Age/Vesting | Increased normal retirement age for new members from 58 to 60 (General Service) | Tier Two |
| 1997 | Administrative | Married members must provide proof of spousal consent for retirement option choice | All |

Key: Benefit enhancement Benefit cap or reduction

History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|-----------------------------|---|-------------------------|
| 1997 | Administrative | Reemployed retirees can work up to 1,040 hours for a PERS-covered employer without loss of benefits (up from 600 hours) | All |
| 1997 | Benefit Calculation/Formula | Out-of-state teaching service and some military purchases allowed | All |
| 1999 | Benefit Calculation/Formula | Locked in existing actuarial equivalency factor tables | Tier One |
| 2000 | Investment Risk Allocation | Eliminated “Last Known Rate” member account crediting guarantee | Tier One |
| 2003 | Benefit Calculation/Formula | Decreased Full Formula benefit pension factor (General Service: 1.67% to 1.5%; Police and Fire 2% to 1.8%) | OPSRP |
| 2003 | Benefit Calculation/Formula | Eliminated Money Match benefit calculation method | OPSRP |
| 2003 | Benefit Calculation/Formula | Redirected member contributions to freeze Money Match (MM) benefit levels | Prospective MM retirees |
| 2003 | Benefit Calculation/Formula | Required regularly updated mortality assumptions and actuarial factors | All |
| 2003 | Cost-of-living adjustment | Prorated first year COLA | OPSRP |
| 2003 | Cost-of-living adjustment | Eliminated COLA “bank” carryover | OPSRP |

Key: Benefit enhancement Benefit cap or reduction

History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|-----------------------------|--|------------------|
| 2003 | Final Average Salary | Eliminated lump-sum vacation payouts from subject salary | OPSRP |
| 2003 | Final Average Salary | Eliminated accumulated sick leave from final average salary | OPSRP |
| 2003 | Investment Risk Allocation | Required members to self-fund guaranteed return on member accounts | Tier One |
| 2013 | Cost-of-living adjustment | 1.5% in 2013; COLA in 2014 and beyond is 1.25% on the first \$60,000 of an annual benefit; 0.15% on amounts above \$60,000 | All |
| 2013 | Supplementary Payments | Annual supplementary payments of 0.25% to all benefit recipients (up to \$150) through 2019. Second annual supplementary payment of 0.25% through 2019 if benefit is \$20,000 or less annually | Retirees |
| 2013 | Benefit Calculation/Formula | Eliminated any tax remedy for retirees who do not pay income taxes in Oregon because they are not residents of Oregon | Tier One |
| 2014 | Investment Risk Allocation | Decreased assumed earnings rate from 8.0% to 7.75% | Tier One |
| 2015 | Supplementary Payments | Supplementary payments invalidated by Oregon Supreme Court | Retirees |

Key: Benefit enhancement Benefit cap or reduction

History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|-----------------------------|--|-------------------|
| 2015 | Cost-of-living adjustment | Annual COLA of up to 2% restored for service time accrued before October 1, 2013. COLA for service time after that date uses a lower rate. Service time accrued in both periods is “blended” | All |
| 2016 | Investment Risk Allocation | Decreased assumed earnings rate from 7.75% to 7.50% | Tier One |
| 2017 | Investment Risk Allocation | Decreased assumed earnings rate from 7.50% to 7.20% | Tier One |
| 2017 | Investment Risk Allocation | Oregon Investment Council changes IAP investment strategy to Target-Date Funds, intended to reduce investment risk and volatility as members age | All |
| 2019 | Administrative | Note: Senate Bill 1049 made substantial changes to benefit administration, details of which can be found on our SB 1049 webpage | All |
| 2019 | Administrative | Alternate method to calculate death benefit for certain Tier One/Tier Two members who die before retirement | Tier One/Tier Two |
| 2019 | Benefit Calculation/Formula | Reduces member contributions to IAP. Establishes limit on salary used for benefit calculations | All |
| 2021 | Investment Risk Allocation | Decreased assumed earnings rate from 7.20% to 6.90% | Tier One |

Key: Benefit enhancement Benefit cap or reduction

History of key PERS benefit enhancements, caps, and reductions by year

| Year | Category | Action | Affected Members |
|------|-------------------------------------|---|------------------|
| 2021 | Benefit Calculation/ Formula | Changed definition of salary to include income that is or would be taxable under Oregon state income tax | OPSRP |
| 2021 | Benefit Calculation/ Formula | Increased death benefits from 50% of actuarially determined value to 100% | All |
| 2024 | Retirement Age/ Benefit Calculation | House Bill (HB) 4045 decreased OPSRP Police and Firefighter normal retirement age for members with less than 25 years of service from 60 to 55. Created new OPSRP member classification — Hazardous Position — with increased benefits above General Service members. Effective January 1, 2030 | OPSRP |

Key: Benefit enhancement Benefit cap or reduction

Additional Resources

Agency 2025-2027 Governor’s Recommended Budget

<https://www.oregon.gov/pers/Documents/Financials/Budgets/25-27-Budget.pdf>

Milliman December 31, 2023, System Valuation

Annual actuarial report of the system assets and liabilities

<https://www.oregon.gov/pers/Documents/Financials/Actuarial/2024/12312023-Actuarial-Valuation.pdf>

Annual Comprehensive Financial Report (ACFR) – Fiscal Year End June 30, 2024

Report of all funds over which the PERS Board exercises authority

<https://www.oregon.gov/pers/Documents/Financials/ACFR/2024-ACFR.pdf>

PERS by the Numbers – Updated December 2024

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 Popular Annual Financial Report

Summary is designed to give members, employers, and the public a concise overview of Oregon PERS’ financial health.

https://www.oregon.gov/pers/Documents/Financials/PAFR/PERS_PAFR_24.pdf

PERS Economic Impact Study 2024

Summary of the economic impact of PERS pension payments on the Oregon economy

<https://www.oregon.gov/pers/Documents/General-Information/Economic-Impact-Study.pdf>

PERS Agency Strategic Plan – 2023-2028

Agency-established priorities and plan to achieve the core mission

<https://www.oregon.gov/pers/Documents/Strategic-Plan.pdf>

PERS Agency Website

PERS website

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