

**Public Employees Retirement System  
2012 Earnings Crediting Report**

(Reported out of Subcommittee on 03/06/2013)

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The General Government Subcommittee recommends that the Joint Committee on Ways and Means acknowledge receipt of a report from the Public Employees Retirement System on the preliminary crediting of 2012 earnings received through system investments.

ORS 238 requires the agency to submit a preliminary earnings crediting report 30 days prior to approving final crediting. On January 23, 2013, the PERS Board approved preliminary earnings crediting for 2012 earnings of \$7.6 billion.

The preliminary allocation of the \$7.6 billion includes: \$3.1 billion to Member and Employer Accounts; \$3.1 billion to Benefits and Reserves; and \$1.3 billion to employer side accounts and the Individual Account Program.

Tier One member regular accounts were credited at the assumed earnings rate of 8.0%. Tier Two regular member accounts received a preliminary crediting of 14.59%. Employers' Oregon Public Service Retirement Plan pension accounts received a preliminary crediting of 13.87%. Variable accounts received a preliminary crediting of 18.35% and IAP member accounts received a preliminary crediting of 14.19%.

The Board is scheduled to make its final 2012 earnings crediting decision at its March 29, 2013 Board meeting.

Your General Government Subcommittee recommends acknowledging receipt of the report, with instruction that the PERS Board report back to Ways and Means by April 15, 2013 with options for the deployment of Contingency Reserves that could lower employer contribution rates for the 2013-15 and the 2015-17 biennia.

# Agency Report

## Public Employees Retirement System

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**Analyst:** John Borden

**Request:** Acknowledge receipt of a report on preliminary 2012 earnings crediting for the Public Employees Retirement Fund.

**Recommendation:** Acknowledge receipt of the report, with instruction.

**Analysis:** ORS 238.670(5) requires the Public Employees Retirement System (PERS) Board to submit a report to the Legislature on its preliminary plan to credit annual 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 it makes its final earnings crediting decision. The Board is scheduled to make its final 2012 earnings crediting decision during its March 29, 2013 Board meeting.

On January 23, 2013, the PERS Board approved preliminary earnings crediting for 2012 system earnings of \$7.6 billion. Earnings increased PERS assets in these accounts and reserves from \$52.8 billion to \$60.4 billion, which is a 14.3% increase. PERS funded status increased from 82% to an estimated 87% funded.

The preliminary allocation of the \$7.6 billion includes:

- Member and Employer Account Allocations (\$3.1 billion): Tier One member accounts \$476.9 million; Tier Two member accounts \$97.2 million; OPSRP Pension Employer Reserves \$144.3 million; and Tier One/Tier Two Employer Reserves \$2.4 billion.
- Benefit and Reserves Allocation (\$3.1 billion): Benefits-in-Force \$2.7 billion; Tier One Rate Guarantee Reserve \$325.5 million; and Contingency Reserves \$70.4 million.
- Other crediting outside of the Board's discretion (\$1.3 billion): Employer Pre-Paid "Side" Accounts \$731.3 million and Individual Account Program (IAP) member accounts \$595.7 million.

The Tier One Rate Guarantee Reserve deficit falls to \$19.8 million, after preliminary crediting of \$325.5 million. Statutorily, this account is used to credit, year-to-year, Tier One member regular accounts with the assumed earnings rate when actual market returns are less than 8.0%.

The Contingency Reserve Account increases from \$533.3 million to \$603.7 million. Statutorily, contingency reserves are for: (a) employer insolvency; (b) legal expenses; and (c) unspecified contingencies.

Tier One member regular accounts were credited at the current assumed earnings rate of 8.0%. Tier Two regular member accounts received a preliminary crediting rate of 14.59%, while the employers' OPSRP Pension accounts are expected to receive a rate of 13.87%. Variable accounts are estimated to earn 18.35% and IAP member accounts earnings are estimated to be 14.19%. Attached to this analysis is an abridged history of PERS earnings and crediting.

The \$7.6 billion investment income is net of \$338.8 million in external investment expense, \$8.4 million Oregon State Treasury investment expense, and \$33.6 million PERS agency administrative expense.

Current 2013-15 employer rates are based on calendar year 2010 and 2011 earnings crediting decisions. Final crediting of calendar 2012 and 2013 earnings will impact 2015-17 employer rates.

The Legislative Fiscal Office recommends acknowledging receipt of the report, with the following instruction. The PERS Board is directed to report back to the Joint Committee on Ways and Means by April 15, 2013 with options for the deployment of Contingency Reserves that could lower employer contribution rates for the 2013-15 and the 2015-17 biennia.

PERS Earnings/(Loss) Crediting History (Percents)

	Calendar Year	Tier One Crediting	Tier Two Crediting	Variable Credited	Individual Account Program
1	2001	8.00	(6.66)	(11.19)	n/a
2	2002	8.00	(8.93)	(21.51)	n/a
3	2003	8.00	22.00	34.68	n/a
4	2004	8.00	13.27	13.00	12.77
5	2005	8.00	18.31	8.29	12.80
6	2006	8.00	15.45	15.61	14.98
7	2007	7.97	9.47	1.75	9.46
8	2008	8.00	(27.18)	(43.71)	(26.75)
9	2009	8.00	19.12	37.57	18.47
10	2010	8.00	12.44	15.17	12.13
11	2011	8.00	2.21	(7.80)	2.15
12	2012-Preliminary	8.00	14.59	18.35	14.19
	Average	8.00	7.01	5.02	7.80
	Average excluding Calendar Year 2008	8.00	10.12	9.45	12.12