



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

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To: Members of the Senate Rules and House Rules Committees
From: Paul R. Cleary, Executive Director
Re: PERS Information
Date: March 27, 2013

As discussed with the PERS Board in January 2013, PERS' vision of maintaining a sustainable, secure, and affordable retirement system has been challenged by the 2008 market downturn and slow economic recovery. Changes to PERS in 1995 and 2003 demonstrate the legislature's history of rebalancing the system when economic factors, retirement trends, or member demographics tilt the balance between affordability and benefits. As cost containment proposals have been introduced this legislative session, PERS staff reviewed whether proposals support this vision by applying the following principles:

1. Focus on major cost drivers to generate real cost savings.
2. Spread the burden across all affected groups, including retirees.
3. Keep it simple: avoid unintended consequences, and enable informed retirement decisions.
4. Enhance the system's credibility by addressing perceived inequities and abuses.

At the committee's request, we can discuss the application of these principles to the provisions in Senate Bill 822.

The following documents are provided for reference:

- **PERS Facts** – A snapshot of the PERS plan and our members.
- **Contribution Rate Projections** – A chart prepared by Milliman, PERS' actuary, that shows projected employer rate contributions over time based on different rates of return.
- **Determination of Liabilities** – A chart prepared by Milliman, PERS' actuary, that shows projected benefit payments over time, starting from 2011, and the composition of those payments with the current cost-of-living adjustment (COLA).
- **Monthly Benefits Payments (as of January 1, 2013)** – This table shows the number and percentage of benefit payments paid in increments of \$500.
- **Impact of Changes to Out-of-State Tax Remedy** – From the February 2013 Analysis of PERS Cost Allocation, Benefit Modification, and System Financing Concepts, this summary shows potential impacts of elimination of out-of-state tax remedy to members, employers, and the system.

For additional information, please contact:

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Overview

| | | | |
|---|---|--|--|
| MEMBERS & EMPLOYERS (as of December 31, 2011) | 211,000 active and inactive members | 118,000 benefit recipients | ~900 employers state, local governments, school districts |
| ACTIVE MEMBERSHIP BY TYPE (as of December 31, 2011) | 46,882 Tier One | 49,130 Tier Two | 74,960 OPSRP |
| ACTIVE MEMBERSHIP BY EMPLOYER (as of December 31, 2011) | 45,374 state and university employees | 57,130 local government employees | 68,468 school district employees |
| RETIRED MEMBER AVERAGES (for calendar year 2011 retirees) | \$2,672 average monthly benefit payment at retirement | 22 years average length of public service | 59 average age at retirement |
| SALARY REPLACED AT RETIREMENT | 54% all retirees from 1990-2011 | 50% 2011 retirees | 74% 2011 retirees with 30 years of service |
| ECONOMIC IMPACT (calendar year 2011) | \$2.8 billion benefit payments to PERS retirees living in Oregon | \$3.3 billion in total economic value to Oregon | 29,725 Oregon jobs sustained by PERS benefit payments |

System funding

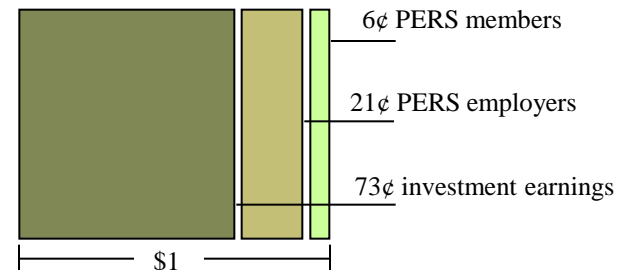
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012* |
|---|----------|--------|--------|--------|--------|--------|
| Funded Status | | | | | | |
| Including side accounts | 112% | 80% | 86% | 87% | 82% | 87% |
| Excluding side accounts | 98% | 71% | 76% | 78% | 73% | 78% |
| Unfunded Actuarial Liability (UAL) | | | | | | |
| Including side accounts (\$ billion) | \$-6.1** | \$11.0 | \$8.1 | \$7.7 | \$11.0 | \$8.5 |
| Excluding side accounts (\$ billion) | \$1.5 | \$16.1 | \$13.6 | \$13.3 | \$16.3 | \$14.0 |

* 2012 is estimated.

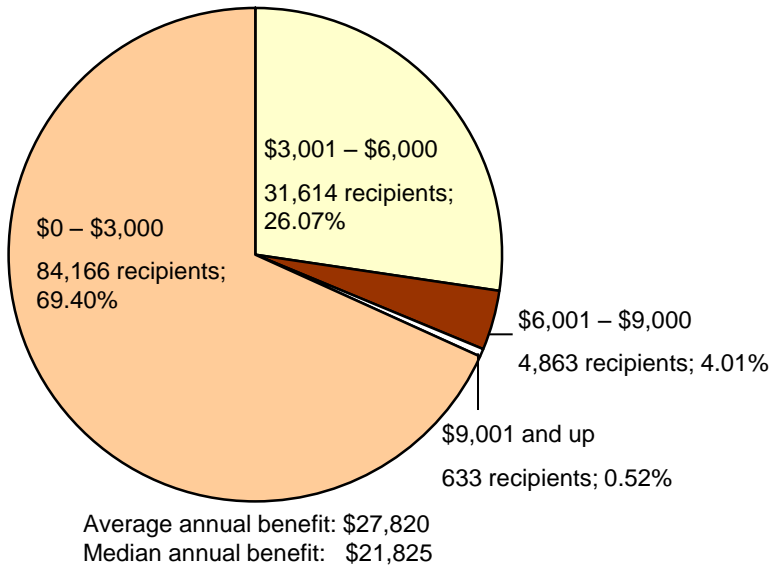
** This is a funding surplus. Side accounts are pre-payments made by employers.

Funding sources (1970-2012)

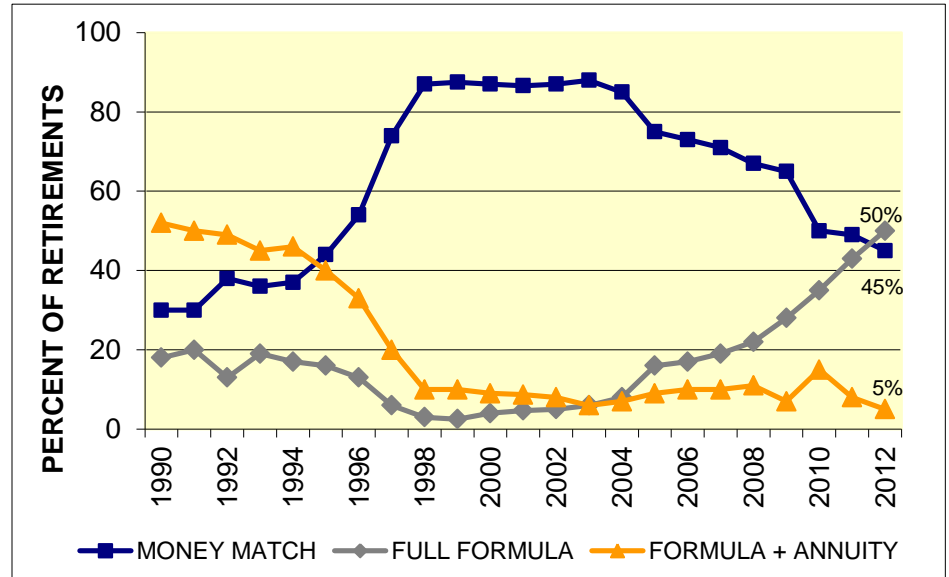
Money for benefit payments comes from three sources



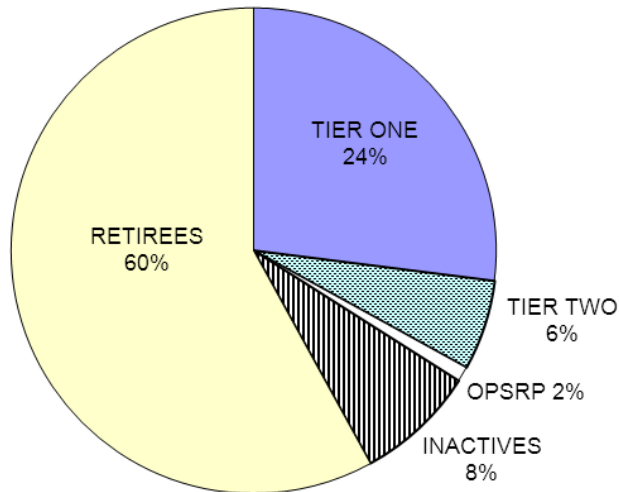
Distribution of monthly benefit payments for 121,276 recipients (as of January 1, 2013)



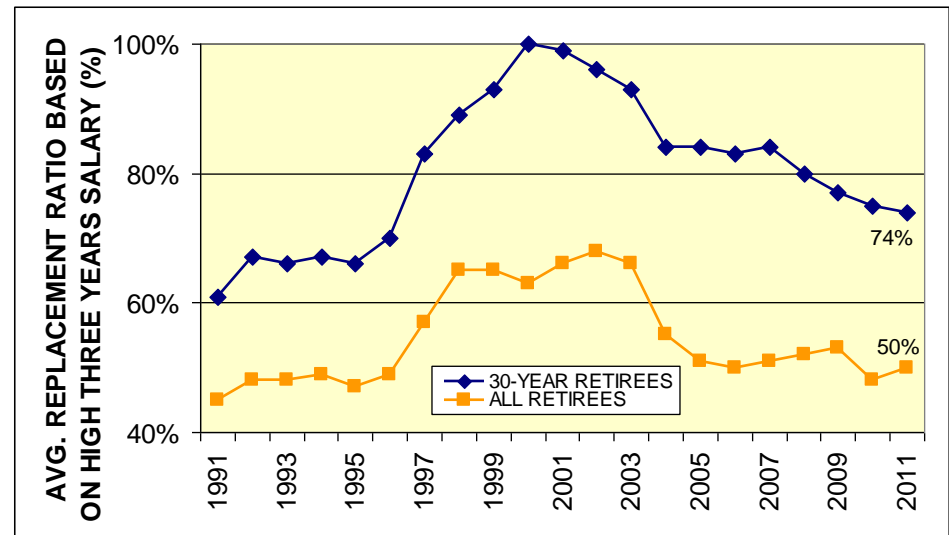
Benefit calculation trends



Actuarial accrued liabilities (as of December 31, 2011)

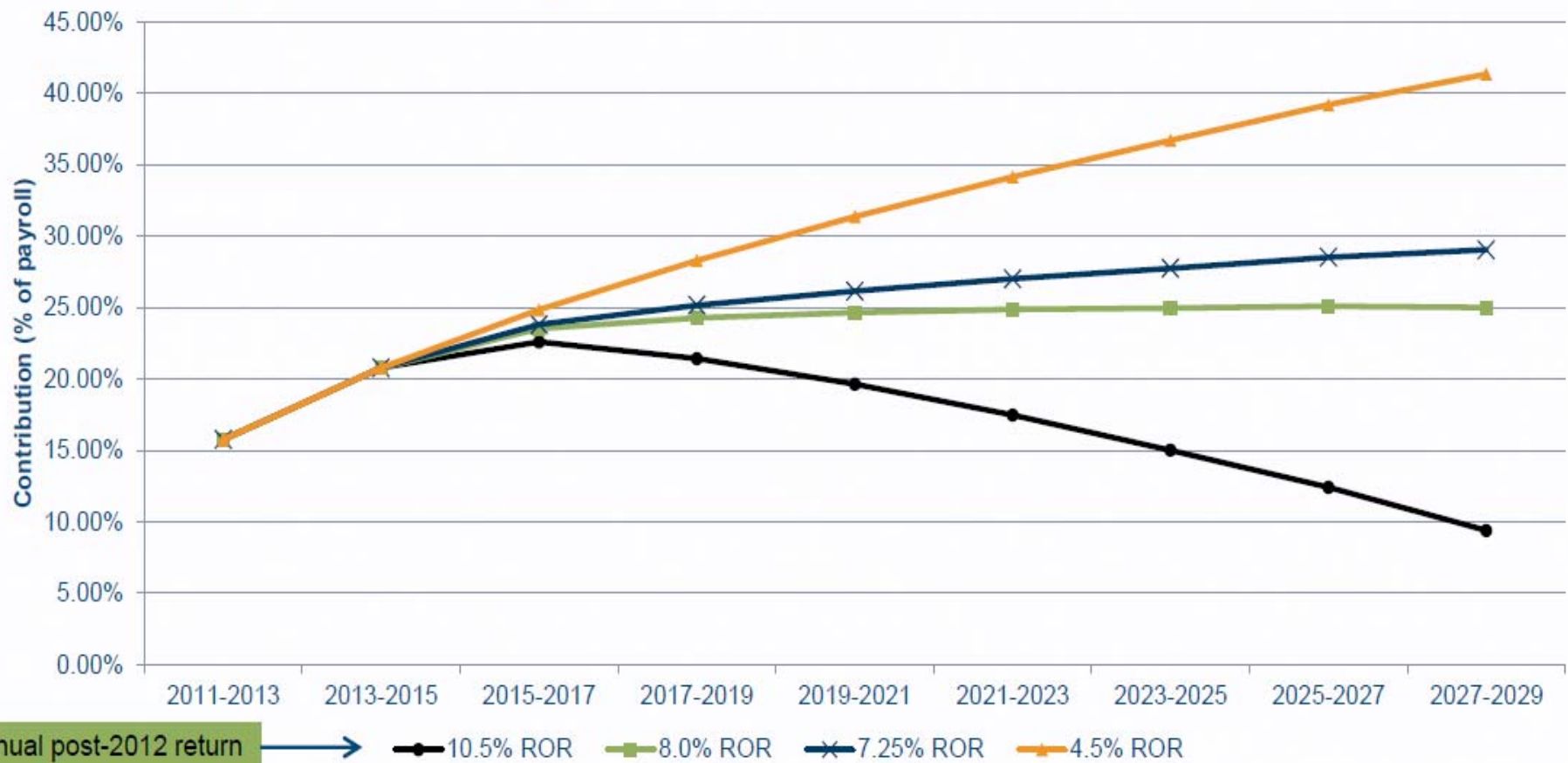


Replacement ratio trends



Contribution Rate Projections

System-Wide Average Tier 1/Tier 2/OPSRP Base Contribution Rates



Base contribution rates do not reflect the effects of side account rate offsets and Pre-SLGRP liabilities, and do not include contribution rates for the IAP, retiree healthcare programs or payments for debt servicing on Pension Obligation Bonds.

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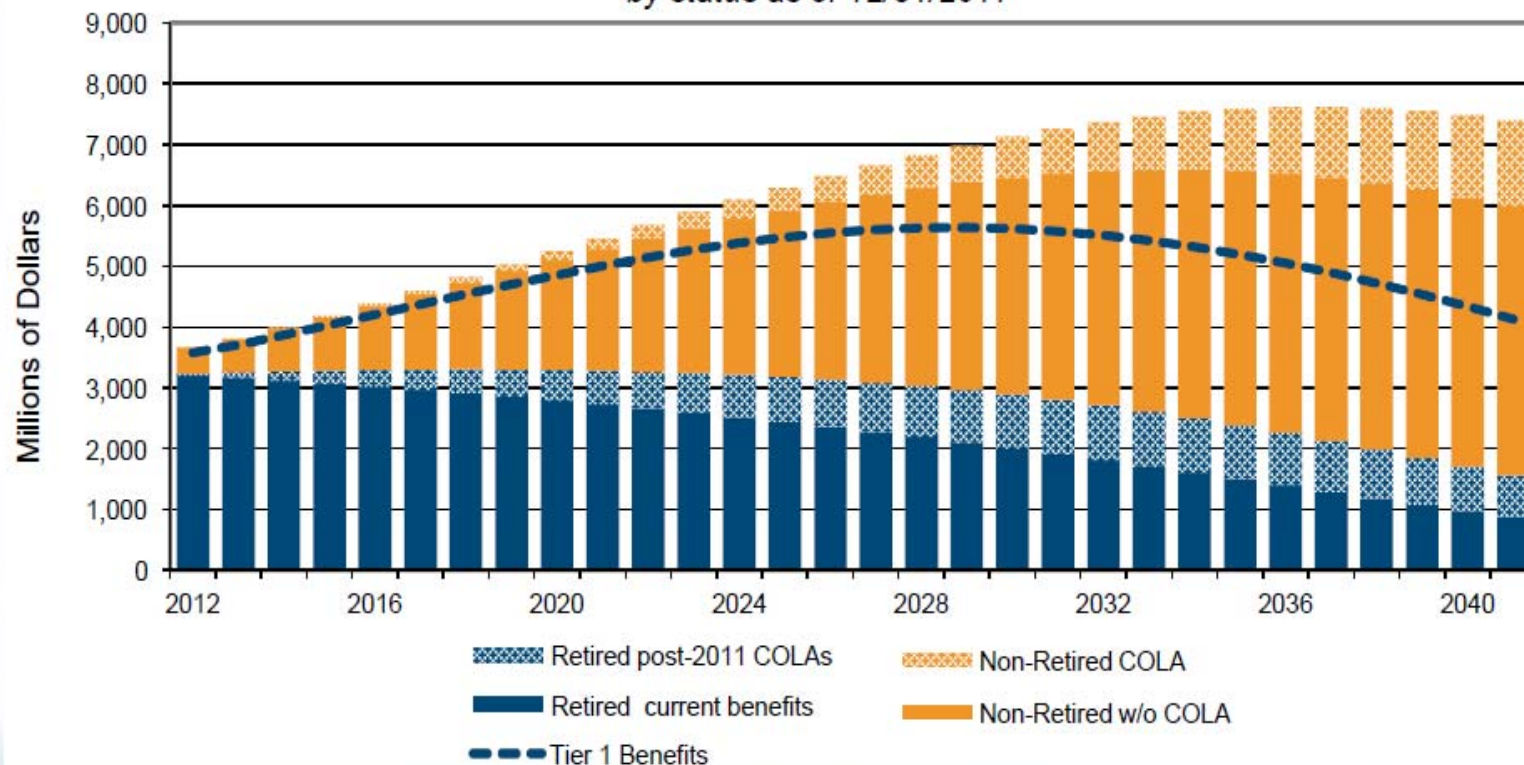
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Determination of Liabilities

- Liabilities are calculated from projected benefit payments
- Projected benefit payments are well defined in the near-term
- 68% of system liability is for retired and inactive members

Tier 1/Tier 2 & OPSRP Expected Benefit Payments
by status as of 12/31/2011



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Monthly Benefits Payments (as of January 1, 2013)

| Monthly Benefit (\$) | # of Payments | % of Benefits Paid | Monthly Benefit (\$) | # of Payments | % of Benefits Paid |
|----------------------|---------------|--------------------|----------------------|---------------|--------------------|
| 0 - 500 | 18,734 | 15.45% | 3,001 - 3,500 | 7,571 | 6.24% |
| 501 - 1,000 | 18,645 | 15.37% | 3,501 - 4,000 | 6,799 | 5.61% |
| 1,001 - 1,500 | 15,135 | 12.48% | 4,001 - 4,500 | 5,955 | 4.91% |
| 1,501 - 2,000 | 12,328 | 10.17% | 4,501 - 5,000 | 4,986 | 4.11% |
| 2,001 - 2,500 | 10,478 | 8.64% | 5,001 - 5,500 | 3,686 | 3.04% |
| 2,501 - 3,000 | 8,846 | 7.29% | 5,501 - 6,000 | 2,617 | 2.16% |
| Subtotal | 84,166 | | Subtotal | 31,614 | |
| % of total | 69.40% | 38.04% | % of total | 26.07% | 47.41% |

| Monthly Benefit (\$) | # of Payments | % of Benefits Paid | Monthly Benefit (\$) | # of Payments | % of Benefits Paid |
|----------------------|---------------|--------------------|----------------------|---------------|--------------------|
| 6,001 - 6,500 | 1,801 | 1.49% | 9,001-10,000 | 270 | 0.22% |
| 6,501 - 7,000 | 1,125 | 0.93% | 10,001-11,000 | 160 | 0.13% |
| 7,001 - 7,500 | 786 | 0.65% | 11,001-12,000 | 73 | 0.06% |
| 7,501 - 8,000 | 515 | 0.42% | 12,001-13,000 | 36 | 0.03% |
| 8,001 - 8,500 | 387 | 0.32% | 13,001-14,000 | 30 | 0.02% |
| 8,501 - 9,000 | 249 | 0.21% | 14,001 and up | 64 | 0.05% |
| Subtotal | 4,863 | | Subtotal | 633 | |
| % of total | 4.01% | 12.04% | % of total | 0.52% | 2.50% |

TOTAL BENEFIT PAYMENTS: 121,276 (includes alternate payees & survivors)

TOTAL DOLLARS: \$281.2 million

AVERAGE ANNUAL BENEFIT: \$27,820

MEDIAN ANNUAL BENEFIT: \$21,825

Eliminate Tax Remedy Payments for Current and Future Non-Oregon Resident Retirees

This concept would amend statute to eliminate supplemental tax remedy benefits for PERS retirees that do not pay state income taxes in Oregon.

| Impact | | |
|---|--|---|
| System Liabilities/Employer Rates/ Other Employer Costs | Member Benefits and Cost Sharing | Administrative |
| <p>Accrued liability impact: \$0.38 billion reduction</p> <p>Total liability impact: \$0.39 billion reduction</p> <p>Uncollared employer contribution rates would decrease by about 0.3% of payroll, saving approximately \$55 million in the 2013-15 biennium.</p> <p>Estimates shown above assume 15% of benefits are paid to non-Oregon residents.</p> | <p>Would reduce benefits of retired Tier One members who reside out-of-state by approximately 6%, on average (estimated at 15% of current retired members, or about 18,000 people). The reduction would be highest for those affected members with the greatest proportion of their service prior to September 29, 1991. The supplemental tax remedy payments are only paid to members who started service before July 14, 1995. Benefit recipients who are entitled to the tax remedy receive a maximum monthly increase of 9.8% and minimum of 2%.</p> | <p>PERS</p> <p>Would require IT system modifications to coordinate withholding tax remedy benefits from those recipients who should no longer receive them. Oregon's Department of Revenue would also need to coordinate eligibility determinations and complications would arise as recipients move in and out of Oregon residency status.</p> <p>Employer</p> <p>No identified administrative impact.</p> |