

Agency Report

Public Employees Retirement System

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



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
<http://oregon.gov/pers>

February 5, 2013

Senator Richard Devlin, Co-Chair
Representative Peter Buckley, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairs:

Nature of the Request:

To report the PERS Board's preliminary crediting of 2012 earnings received through investment of the Oregon Public Employees Retirement Fund (OPERF) Regular Account. This report is being provided in accordance with ORS 238.670(5), which requires PERS to submit a preliminary annual crediting report to the appropriate legislative committee 30 days prior to the allocation of earnings and losses to member and employer accounts and other reserves.

Agency Action:

On January 25, 2013, the PERS Board preliminarily approved the allocation of approximately \$7.6 billion in OPERF Regular Account 2012 earnings to member and employer accounts and other reserves. In this preliminary action, the Board allocated earnings (net of expenses and other adjustments) at a rate of 14.30% to the Benefits-In-Force Reserve, 14.28% to Employer Reserves, 14.59% to Tier Two member regular accounts, 14.19% to Individual Account Program accounts, and 13.87% to the OPSRP Pension Reserve. Additionally, the Board passed a motion to credit the Contingency Reserve with \$70.4 million so that the Contingency Reserve balance (about \$604 million after preliminary crediting) is maintained at approximately 1% of the PERS Fund year-end balance (about \$60.4 billion).

The Board also preliminarily approved crediting earnings at the current assumed earnings rate of 8.00% to Tier One member regular accounts. Earnings from these accounts over the assumed rate, totaling \$325.5 million, are required by ORS 238.255(1) to be used to offset the deficit in the Tier One Rate Guarantee Reserve. This preliminary action reduced the Tier One Rate Guarantee Reserve's deficit from -\$345.3 million to -\$19.8 million. The deficit in this reserve resulted from required crediting to Tier One member accounts in 2011, when earnings were less than the assumed rate of 8%. The remaining deficit will be recovered from future Tier One member account earnings in excess of the assumed earnings rate.

A summary of the Board's preliminary decisions is reflected in the attached exhibit.

PERS staff is available to report to the Legislature and answer questions regarding the Board's preliminary decisions at your discretion.

Action Requested:

PERS is requesting that the Committee acknowledge receipt of the report.

Legislation Affected:

No legislative revisions will be required. Thank you for your interest and assistance.

Sincerely,

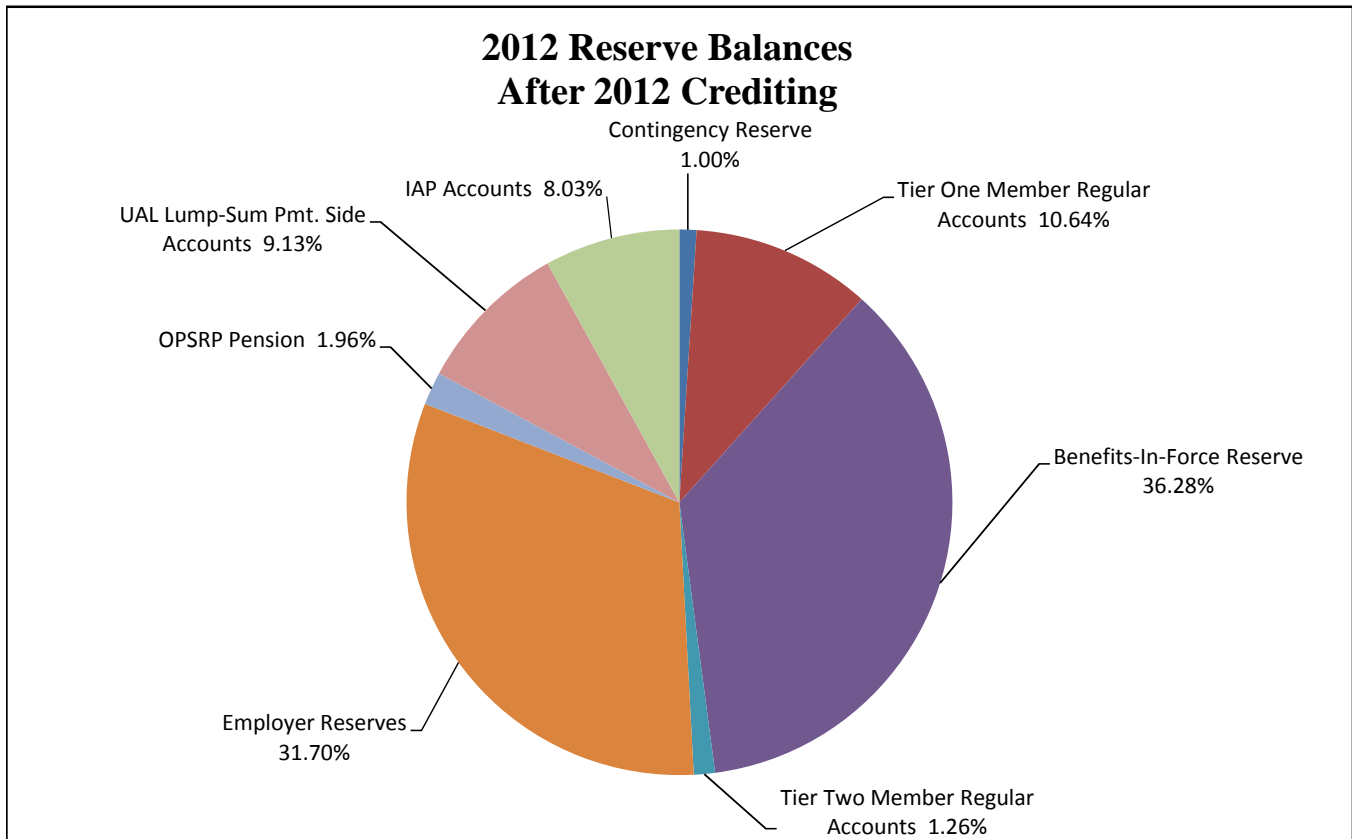
A handwritten signature in black ink that reads "Paul R. Cleary". The signature is written in a cursive style with a large, prominent initial "P".

Paul R. Cleary
Executive Director

Attachment: 2012 Preliminary Earnings Crediting and Reserving

Oregon Public Employees Retirement System
2012 Crediting and Reserving
Credit Contingency Reserve to 1% of Reserves
 (All dollar amounts in millions)

Regular Account Reserve	Reserves Before Crediting	2012 Crediting	Reserves After Crediting	2012 Rates
Contingency Reserve	\$533.3	\$70.4	\$603.7	N/A
Tier One Member Regular Accounts	5,961.8	476.9	6,438.7	8.00%
Tier One Rate Guarantee Reserve	(345.3)	325.5	(19.8)	N/A
Benefits-In-Force Reserve	19,160.7	2,739.4	21,900.1	14.30%
Tier Two Member Regular Accounts	666.2	97.2	763.4	14.59%
Employer Reserves	16,744.9	2,391.9	19,136.8	14.28%
OPSRP Pension	1,040.6	144.3	1,184.9	13.87%
*UAL Lump-Sum Pmt. Side Accounts	4,782.3	731.3	5,513.6	Various
*IAP Accounts	4,250.8	595.7	4,846.5	14.19%
Total	\$52,795.3	\$7,572.6	\$60,367.9	



*Informational only. Not affected by Board reserving or crediting decisions.