

Public Employees Retirement System

2012 Earnings Crediting Report Follow-up

(Reported out of Subcommittee on 05/15/2013)

The General Government Subcommittee recommends that the Joint Committee on Ways and Means acknowledge receipt of report from the Public Employees Retirement System on options for the deployment of contingency reserves that could lower employer contribution rates for the 2013-15 and the 2015-17 biennia.

The PERS Board reports that there do not appear to be practical reasons to support deployment of Contingency Reserve at this time. The Board further reports deployment could be considered in connection with 2013 earnings crediting in the Spring of 2014 to affect rates in the 2015-17 biennium.

The adequacy of the contingency reserve balance is the question at hand. The PERS Board follows a general unwritten “rule” to maintain a one percent reserve balance. However, that reserve requirement appears to have little relation to the potential liability exposure of the account. Since reserve funds are not accounted for in actuarial valuations, the deployment of any amount of reserves to member regular accounts and employer accounts would reduce employer rates.

The contingency reserve account’s balance is currently \$600.2 million.

The General Government Subcommittee recommends acknowledging receipt of the report.

Agency Report
Public Employees Retirement System
2012 Earnings Crediting Report Follow-up

Analyst: John Borden

Request: Acknowledge receipt of a follow-up report on 2012 earnings crediting.

Recommendation: Acknowledge receipt of the report.

Analysis: The Public Employees Retirement System (PERS) Board submitted on March 6th, 2013 a report to the Legislature on its preliminary plan to credit 2012 calendar year earnings of the Oregon Public Employees Retirement Fund (OPERF). The Joint Committee on Ways and Means acknowledged 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.

The PERS Board "...reports that there do not appear to be practical reasons to support further deploying the current Contingency Reserve, and particular legal concerns if that deployment were to be solely to reduce employer contribution rates slated to become effective July 1, 2013."

There is no legal issue associated with the deployment of contingency reserves under the assumption that such reserves would be deployed back to member regular accounts and employer accounts as those are the same accounts that fund the contingency reserve account.

Statutorily, contingency reserves are for: (a) employer insolvency; (b) legal expenses; and (c) unspecified contingencies.

The "adequacy" of the contingency reserve balance is the question at hand. The PERS Board follows a general unwritten "rule" to maintain a one percent reserve balance. However, that reserve requirement appears to have little relation to the potential liability exposure of the account. Since reserve funds are not accounted for in actuarial valuations, the deployment of any amount of reserves to member regular accounts and employer accounts would reduce employer rates.

The PERS Board further reports "...a [contingency reserve] deployment could be considered in connection with 2013 earnings crediting [Spring of 2014] to affect rates in the 2015-17 biennium."

The PERS Board's final 2012 earnings crediting decision added \$64.9 million to its contingency reserve account after deploying \$2 million for litigation settlement costs. The contingency reserve account's balance is currently \$600.2 million.

Recommendation

The Legislative Fiscal Office recommends acknowledging receipt of the report.