

PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public school districts; and most cities, counties, and special districts in Oregon. The agency also administers a voluntary deferred compensation program for the state and some local governmental units. It is responsible for all fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. The Oregon Investment Council manages investment of retirement system assets. Deferred compensation plan assets are managed by private fund managers.

The five-member Public Employees Retirement Board has broad authority for operation of the programs. The Board has recently experienced the turnover in its Chairmanship and other membership. Day-to-day operations of the agency are carried out by the Board-appointed Director and agency staff. The agency executive director is also an ex-officio non-voting member of the Oregon Investment Council.

PUBLIC EMPLOYEES RETIREMENT SYSTEM	2009-11 Actuals	2011-13 Leg. Approved	2013-15 Current Service Level	2013-15 Governor's Budget	2013-15 Co-Chairs' Budget (1.0)	% Change 2011-13 LAB to 2013-15 CSL
Other Funds	79,307,909	80,750,830	77,761,634	83,924,206	0	-3.7%
Other Funds Nonlimited	6,730,356,220	7,437,176,025	9,277,875,000	9,277,875,000	0	24.7%
TOTAL FUNDS	\$6,809,664,129	\$7,517,926,855	\$9,355,636,634	\$9,361,799,206	\$0	24.4%
Positions	368	367	334	370	0	-9.0%
FTE	361.80	365.70	334.00	370.00	0.00	-8.7%

Major Revenues	Budget Environment	Comparison by Fund Type										
<ul style="list-style-type: none"> Supported with Other Funds Major sources of Other Funds are: <ul style="list-style-type: none"> Investment earnings Employer contributions Employee contributions Retiree healthcare insurance premium revenue payments. Administrative charge on deferred compensation program (0.08 of 1%). Administrative fee assessed on participants and employers for social security administration activities. Miscellaneous and other revenues 	<ul style="list-style-type: none"> Significant Public Employee Retirement System rate increases for the second biennium in a row. With assets of \$50.2 billion and liabilities of \$61.2 billion, PERS had \$11 billion in unfunded liabilities (82% funded) as of December 2011. Approximately 68% of PERS liability is for members who are no longer working. Growth in liabilities is near annual inflation levels. Serves approximately 900 PERS employers covering 95% of all public employees in Oregon. 	<p>PUBLIC EMPLOYEES RETIREMENT SYSTEM</p> <table border="1"> <caption>PERS Revenue (Millions of Dollars)</caption> <thead> <tr> <th>Year</th> <th>Revenue</th> </tr> </thead> <tbody> <tr> <td>2009-11</td> <td>\$6,810</td> </tr> <tr> <td>2011-13</td> <td>\$7,518</td> </tr> <tr> <td>2013-15 CSL</td> <td>\$9,356</td> </tr> <tr> <td>2013-15 GB</td> <td>\$9,362</td> </tr> </tbody> </table>	Year	Revenue	2009-11	\$6,810	2011-13	\$7,518	2013-15 CSL	\$9,356	2013-15 GB	\$9,362
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MAJOR CHALLENGES AND DECISION POINTS

The 2013-15 current service level budget of \$9.4 billion is \$1.8 billion, or 24%, more than the 2011-13 legislatively approved budget (LAB) of \$7.5 billion. The number of positions (334) and FTE (334.00) is 33 positions less than the prior biennium (31.70 FTE).

The CSL operating budget totals \$130.4 million is comprised of \$56.8 million in personal services (44%), \$71.7 million in services and supplies (55%), \$607,833 capital outlay (0.5%), and \$1.3 million debt service (1%). PERS special payments total \$9.2 billion.

At this time, no material adjustments to the current service level have been identified. However, the elimination of continued limited duration position is noted below as it results in a 9% staffing reduction for the agency. The budget phases-out \$2 million for one-time expenditures approved during the 2011-13 biennium for Emergency Board actions, policy measures, and information technology projects. The current service level also adds \$559,232 for private auditing that was previously conducted by the Secretary of State.

The Governor's budget includes reductions for PERS and statewide administrative savings. Additionally, the Governor's budget reflects actions approved to Emergency Board, but then restores a reduction related to the restructuring of state government business operations and other actions (\$1.3 million; 3 positions/3.00 FTE).

Other Revenue and Budget Environment Issues include:

1. Other Funds also pay the agency's administrative expenses, including Debt Service, and come from earnings on the Public Employees Retirement Fund or, when earnings are insufficient, a direct charge to participating employers.
2. Significant portion of employer contributions revenue originates as General, Lottery, Other, or Federal Funds.
3. There are 171,000 active members, 40,507 inactive members, and 118,408 retired members or beneficiaries. Approximately 70,000 members (33%) are eligible for immediate retirement, as of June 2012. Actual retirements are predicted to average 6,000 to 8,000

per biennium.

4. PERS is in the process of restructuring its operational activities to better meet the expected demand for its services.
5. Continued need for information technology investment and reconciliation of legacy data.
6. Expanding actuarial and accounting work required under new governmental accounting standards.
7. Federal Affordable Health Care Act and Oregon Health Insurance Exchange implementations in 2014 will impact administration of PERS Health Insurance program.

The following is a list of currently identified *administrative* challenges and decision points for this agency.

1. PERS is requesting that 27 limited duration positions that were phased out of its current service budget be re-established as permanent positions. These positions have historically been filled as limited duration for the past two biennia and complete such work as: member account processing (12); data quality and verification (6); compliance (1); information technology development and support (2); and business processes coordination (6). Two new positions are being requested for legacy data reconciliation (2) and data reporting and analysis (1). The agency is also requesting \$635,000 for pension accounting, auditing, and actuarial services. The combined request totals \$5.5 million (30 positions/30.00 FTE).

The Governor's budget funds this policy package.

2. PERS is requesting additional resources to augment its Retiree Health Insurance program. The staff would better monitor and facilitate third-party insurer contracting, actuarial and consulting services, accounting, and customer service. This package totals \$805,913 (3 positions/3.00 FTE).

The Governor's budget funds this policy package.

3. PERS is requesting an additional investment in its information technology applications for enterprise-wide data reporting, a replacement storage area network, and systems maintenance and enhancement. This package totals \$1.9 million.

The Governor's budget funds this policy package.

4. Review the agency's implementation of its \$750,000 reduction related to the statewide restructuring.

Standard review of the agency's Nonlimited Other Funds budget to determine if such funds should be re-categorized as limited Other Funds.

The following is a list of currently identified *employer rate* challenges and decision points for this agency.

1. Potential PERS reform legislation in policy committees and its budgetary impact on employer rates and the PERS operating budget, which may include the two proposals in the Governor's budget related to tax policy changes and reducing the cost-of-living adjustment.
2. PERS Board discussion of potential changes to the assumed earnings rate and extending the amortization periods (Spring 2013).