

Analysis  
**Public Employees Retirement System**  
2013 Preliminary Crediting Report

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**Analyst:** John Borden

**Request:** Acknowledge receipt of a report on preliminary 2013 earnings crediting.

**Recommendation:** Acknowledge receipt of the report.

**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 2013 earnings crediting decision at its March 31, 2014 Board meeting.

On January 31, 2014, the PERS Board approved preliminary earnings crediting for 2013 system net earnings of approximately \$9.2 billion. Allocating these earnings will increase the balances in these accounts and reserves from \$57.7 billion to \$66.9 billion, which is an overall 15.89% increase. PERS funded status increased from 87% to an estimated 96%.

The preliminary allocation of the \$9.2 billion includes:

- Member and Employer Account Allocations (\$3.8 billion): Tier One member accounts \$436.6 million; Tier Two member accounts \$116.4 million; OPSRP Pension Employer Reserves \$221.6 million; and Tier One/Tier Two Employer Reserves \$3 billion.
- Benefit and Reserves Allocation (\$3.8 billion): Benefits-in-Force \$3.3 billion; Tier One Rate Guarantee Reserve \$429.6 million; and Contingency Reserves \$68.7 million.
- Other crediting outside of the Board's discretion (\$1.7 billion): Employer Pre-Paid "Side" Accounts \$855.7 million and Individual Account Program (IAP) member accounts \$795.1 million.

The Tier One Rate Guarantee Reserve moves from a deficit to a surplus position of \$429.3 million, after preliminary crediting of \$429.6 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 assumed earnings rate, which for 2013 was 8.0%.<sup>1</sup>

The Contingency Reserve Account increases from \$600.2 million to \$668.9 million (+11.5%). Statutorily, contingency reserves are for: (a) employer insolvency; (b) legal expenses; (c) unspecified contingencies; and (d) temporary supplemental payments [SB 861 (2013)]. The PERS Board has earmarked \$65 million of the Account's balance to pay the total cost of the SB 861 supplementary payments. By statute, the PERS Board can credit up to 7.5% of earnings (\$690 million, based on 2013 preliminary earnings) to the Contingency Reserve.

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<sup>1</sup> PERS Board changed the assumed earnings rate from 8% to 7.75% to become effective January 1st, 2014.

Tier One member regular accounts were credited at the 2013 assumed earnings rate of 8.0%. Tier Two regular member accounts received a preliminary crediting rate of 15.87%, while the employers' OPSRP Pension accounts are expected to receive a rate of 15.74%. Variable accounts are estimated to earn 25.72% and IAP member accounts earnings crediting is estimated to be 15.59%. Attached to this analysis is a history of PERS earnings and crediting.

The \$9.2 billion investment income is net of \$404.9 million in external investment expense, \$8.8 million Oregon State Treasury investment expense, and \$41.5 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.

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## Analysis Addendum

### PERS Earnings/(Loss) Crediting History (Percent)

	Calendar Year	Tier One Crediting	Tier Two Crediting	Variable Crediting	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	8.00	14.68	18.43	14.09
13	2013 – Preliminary	8.00	15.87	25.72	15.59
	Average	8.00	7.70%	6.62%	8.57%
	Average excluding Calendar Year 2008	8.00	10.60%	10.81%	12.49%