

Public Employees Retirement System				
	2011-13 Actuals	2013-15 Leg. Approved*	2015-17 CSL LFO	2015-17 Governor's Recommended
Other Funds	75,017,618	88,153,980	89,655,192	96,272,152
Other Funds Non-Limited	7,779,837,107	9,277,875,000	8,476,114,000	9,553,923,062
Total Funds	7,854,854,725	9,366,028,980	8,565,769,192	9,650,195,214
Positions	369	369	364	380
FTE	363.99	367.23	364.00	380.00

*includes Emergency Board and administrative actions through December 2014.

Program Description

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, public school districts; statutory judges, and participating cities, counties, and special districts in Oregon. The agency also administers a retiree health insurance program and a voluntary deferred compensation program for state agencies and some local governmental units.

Other Funds NonLimited revenue includes: investment earnings, employer contributions, employee contributions, retiree healthcare insurance premium payments, and nominal miscellaneous revenue. Revenues also include the deployment of Contingency Reserves.

Other Funds Limited revenue includes: the agency’s administrative budget is primarily financed by revenue transfers from the various benefit trust funds administered by the agency.

CSL Summary and Issues

The 2015-17 current service level budget for the agency totals \$89.7 million (364.00 FTE) for operations and \$8.5 billion for benefit payments. The CSL operating budget is \$1.5 million, or 1.7%, more than the 2013-15 legislatively approved budget of \$88.2 million. CSL benefit payments are \$802 million, or 8.6%, less than the 2013-15 legislatively approved budget of \$9.3 billion.

The estimate for various NonLimited benefit expenditures (Tier 1/2; Retiree Health Insurance; Oregon Public Service Retirement Pension Program; and the Individual Retirement Account) need to be reforecast and could increase by an estimated \$1.1 billion, according to the agency.

Policy Issues

The agency request budget includes the following policy option packages totaling \$9.3 million Other Funds (24 positions/22.32 FTE):

1. Package 101 - Current Service Metrics Staffing Request – Add staffing to the call center, benefit calculations, and custodial services (\$664,083 Other Funds; 6 positions/6.00 FTE).
2. Package 102 - Fully Integrating Individual Account Program (IAP) Administration into PERS ORION System (Phase-III) – Final phase of moving the IAP program from a private vendor to an in-house application (\$1.9 million Other Funds; 3 positions/3.00 FTE).
3. Package 103 - Enhanced Staffing for the Data Verification Unit – Respond to new data verification request and clear backlog of outstanding requests (\$1.9 million Other Funds; 15 positions/13.32 FTE).
4. Package 104 - Technology Maintenance and Enhancements – Undertake jClarety application architectural system enhancements (\$3.3 million Other Funds).
5. Package 105 - Disaster Recovery Infrastructure Upgrades – Update the agency’s Disaster Recovery and Business Continuity technology infrastructure, including a move to a virtual desktop environment (\$1.6 million Other Funds).

Other Significant Issues and Background

The Legislature in 2013 (regular session and September/October special session) enacted SB 822 and SB 861, respectively. In general, the measures reduced the cost-of-living adjustment for all retirees and eliminated tax remedy payments for benefit recipients who are not subject to Oregon state income tax because they do not reside in Oregon. PERS has reported no administrative issues or concerns related to the implementation of these measures.

During the 2013-15 biennium, three events occurred that had a significant effect on employer rates for the 2015-17 biennium: (1) statutory reforms enacted by the Legislature; (2) strong investment returns; and (3) administrative reforms adopted by the PERS Board. System-wide unfunded liabilities are now at their lowest level since 2007. The combined impact of these events, however, has not resulted in universally lower employer contribution rates. Instead, the impact has been far more mixed, with some employer contribution rates, such as those for state agencies, actually increasing, while contribution rates for School Districts have fallen. In rough dollar terms, state agency contributions are expected to increase approximately \$48.6 million total funds (General, Lottery, Other, and Federal) during the 2015-17 biennium. School Districts, however, are projected to save \$208 million in PERS costs for the 2015-17 biennium. [see LFO Budget Brief 2014-5].

The PERS Board is considering possibly another reduction to the assumed earnings rate.

The one significant issue facing the state and the agency is

1. An Oregon Supreme Court ruling in the Spring of 2015 against some or all of the PERS reform(s) could increase 2015-17 employer contribution rates. If the employer rate increase follows the normal rate setting cycle, then 2017-19 biennium rates would need to increase by approximately 5.5% to recover \$6.1 billion in the unfunded actuarial liability (UAL). Alternatively, employer rates would need to increase 4.5% to 5% for the 2015-17 biennium to recover \$5 billion in UAL, if adjusted outside of the normal rate setting cycle [see LFO Budget Brief 2014-6].

PERS will submit two reports during session:

1. 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 calendar year earnings of the Oregon Public Employees Retirement Fund (OPERF); and
2. A response to a budget note in Senate Bill 5537 (2013) that directed PERS to review the healthcare insurance marketplace.

PERS has reported quarterly retirement activity to the Legislative Fiscal Office throughout most of the biennium, as directed by budget note. The agency will provide a summary report during its budget hearing.

PERS received external financial audits in fiscal years 2011, 2012, and 2013. No significant deficiencies or material weakness were found for fiscal years 2011 or 2013; however, for fiscal year 2011, PERS reports mostly completing its response, but outstanding issues related to the State Treasury's reconciliation of investments and General Ledger-level reporting and reconciliation remain.

Co-Chairs' Budget Framework Discussion

No specific budget details or issues were identified in the Co-Chairs' budget framework for this agency.