

# **Oregon Public Employees Retirement System**

**2015-17**

**Governor's Budget**

## **Day 1: Overview of PERS – The System**

**Agency Presentation to the  
Joint Ways & Means Committee  
General Government Subcommittee**

**Steven Patrick Rodeman  
Executive Director**

**March 16, 2015**



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# Presentation Overview

## Day One: Overview of PERS – The System

- The “Who, What, Where” of PERS Benefits
- System “Balance” and Roles in Funding
- Employer Contributions and Future Projections

## Day Two: Overview of PERS – The Agency

- Mission, Vision, and Core Values and Operating Principles
- Key Goals and Performance Measures Driving Outcome-Based Management
- Strategic Plan Focus Areas Connected to 2015-17 Policy Option Packages

## Day Three: Report on 2013-15 Legislative Priorities and Earnings Crediting

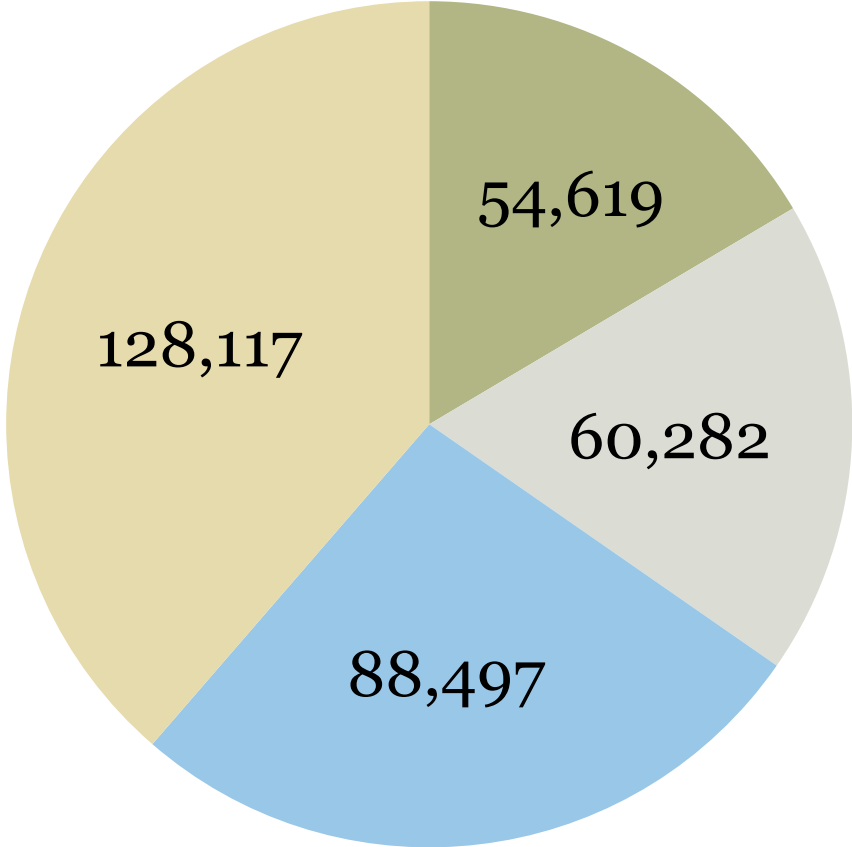
- Progress on Completing 2013-15 Policy Option Packages
- Review of Budget Notes and Reports from 2013-15
- Report on 2014 Preliminary Earnings Crediting

# Overview of PERS – The System

# What is PERS?

- Administers a tax-qualified government plan that provides retirement, death, and disability benefits on behalf of over 900 public employers, covering 95% of Oregon's public employees.
- Governed by a five member board of directors, appointed by the Governor
  - One retired member or represented public employee;
  - One management employee of the state or an elected official;
  - Three members with experience in business management, pension management, or investing who are not members or beneficiaries of PERS.
- The agency also administers:
  - A deferred compensation program, the Oregon Savings Growth Plan (for state employees and participating local governments);
  - A post-retirement health insurance program (for eligible retired members and their dependents); and
  - Oregon's Social Security compliance program for all public employers.

# Who is PERS?



- STATE AGENCIES AND OUS
- LOCAL GOVERNMENTS
- SCHOOL DISTRICTS
- RETIRED

# System Overview – Benefit Components

Tier One: hired before January 1, 1996

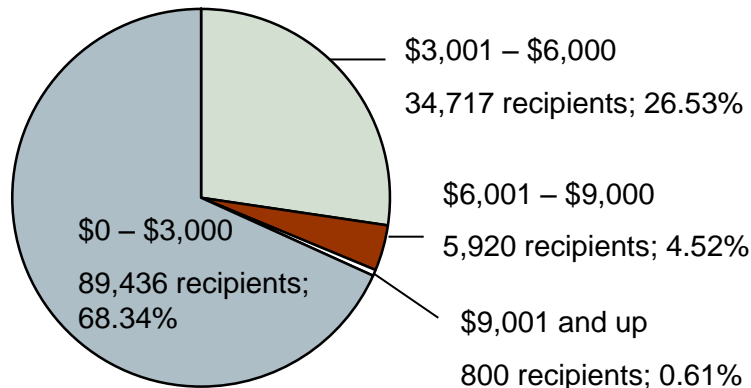
Tier Two: hired between January 1, 1996 and August 28, 2003

OPSRP: hired after August 28, 2003

IAP: all employees, effective January 1, 2004

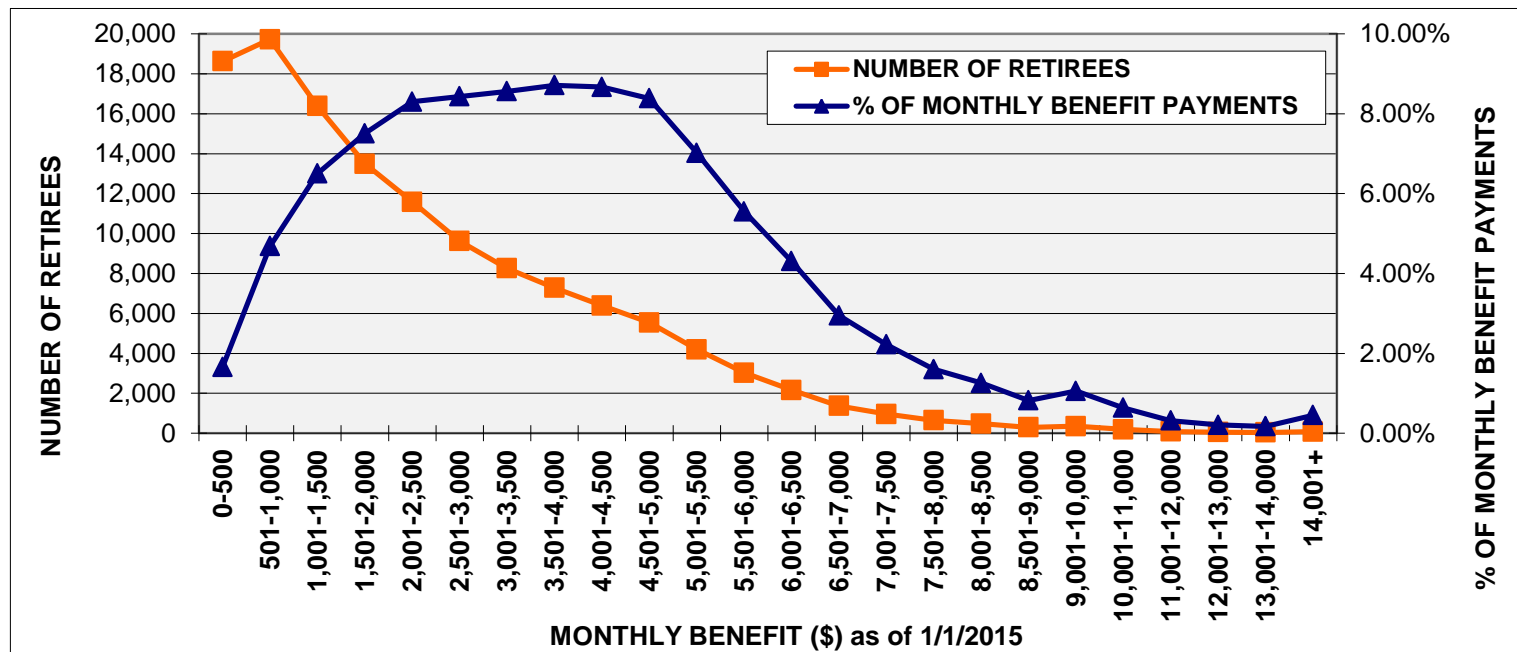
	<b>Tier One</b>	<b>Tier Two</b>	<b>OPSRP</b>	<b>IAP</b>
Normal retirement age	58 (or 30 yrs); P&F = age 55 or 50 w/ 25 yrs	60 (or 30 yrs); P&F = age 55 or 50 w/ 25 yrs	65 (58 w/ 30 yrs); P&F = age 60 or 53 w/ 25 yrs	Same as member's other retirement
Early retirement	55 (50 for P&F)	55 (50 for P&F)	55, if vested	
Benefit calculation methods	Money Match Full Formula Formula +Annuity	Money Match Full Formula	Full Formula	Six account distribution options
Full Formula benefit factor	1.67% general 2.0% P&F	1.67% general 2.0% P&F	1.50% general 1.80% P&F	N/A
Lump-sum vacation payout Included in covered salary for contributions (6%)?	Yes	Yes	No	Yes for Tier One & Tier Two; no for OPSRP
Included in Final Average Salary?	Yes	No	No	No
Unused sick leave included in Final Average Salary?	Yes	Yes	No	N/A

# Who Gets Paid How Much?



**130,873** benefit recipients (as of January 1, 2015)

AVERAGE ANNUAL BENEFIT: \$27,722  
 MEDIAN ANNUAL BENEFIT: \$22,695





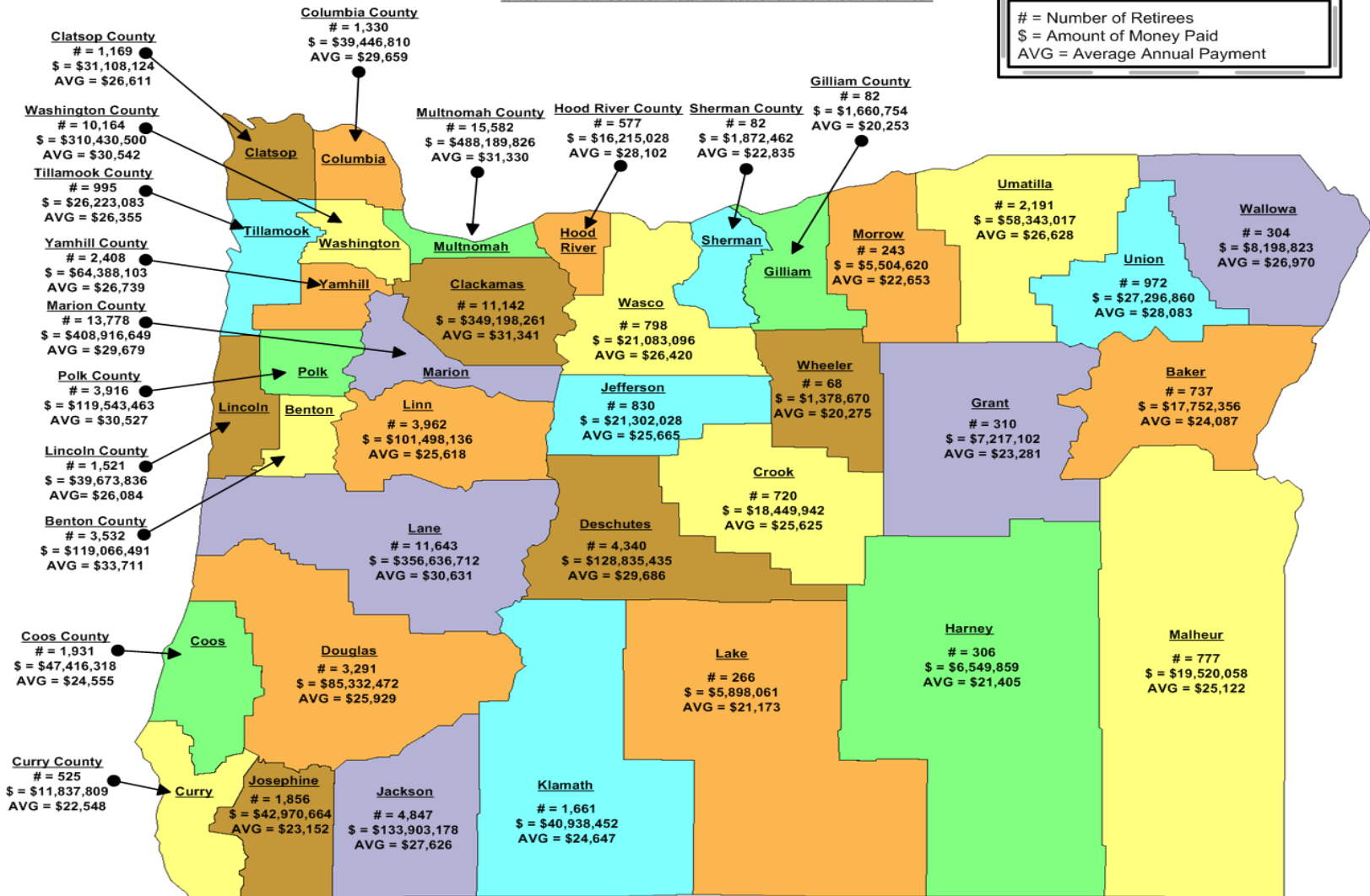
# Where Do They Get Paid?

## Total Benefit Payments by County

6/4/2014 – Data Source: Data Extract for the 2013 Calendar Year

### LEGEND

# = Number of Retirees  
 \$ = Amount of Money Paid  
 AVG = Average Annual Payment

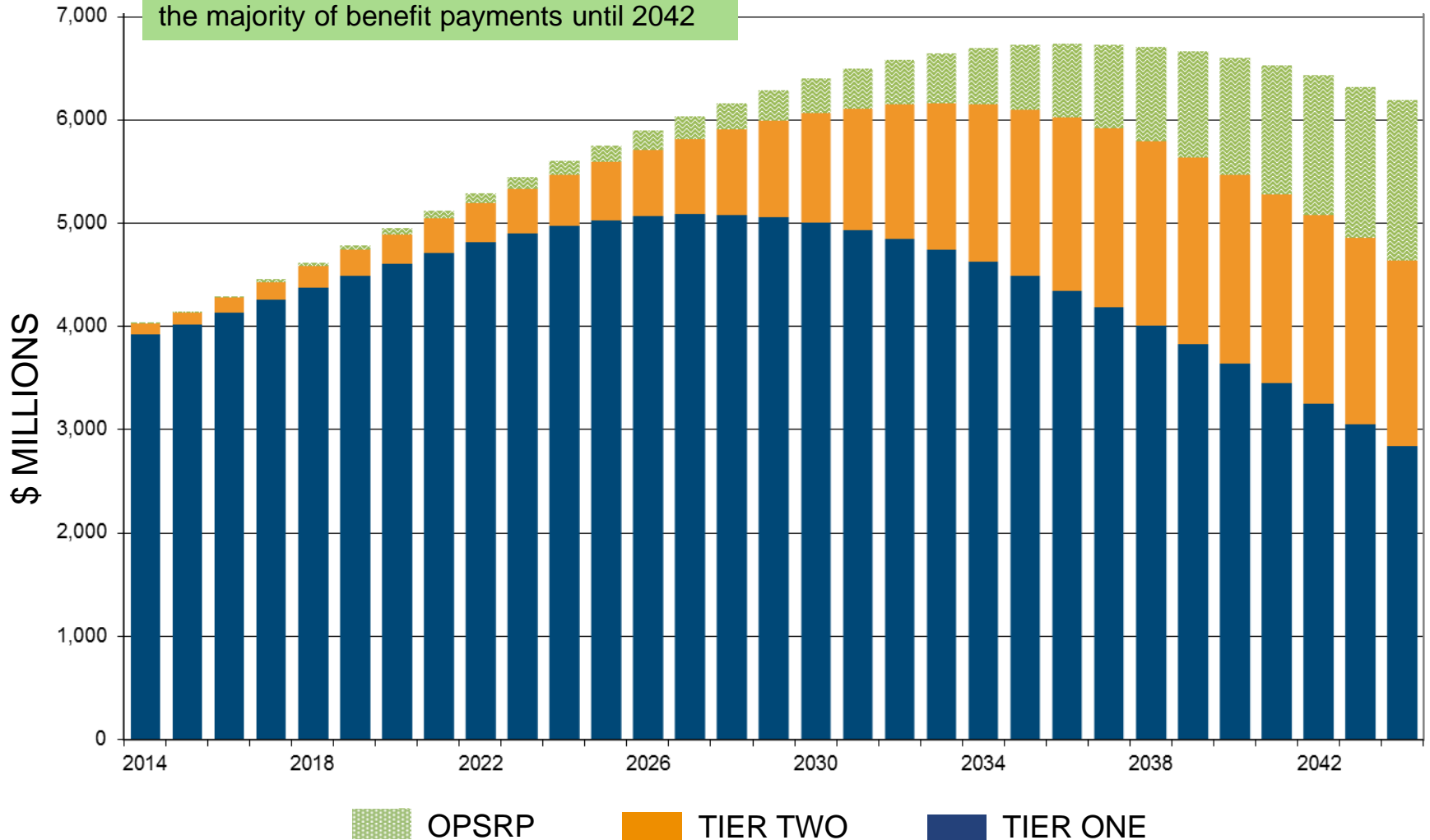


Total in-state benefits: \$3.2 billion

Total out-of-state benefits: \$0.5 billion

# Who Will Get Paid by Member Type?

Tier One members are projected to receive the majority of benefit payments until 2042



# Who is Eligible to Retire?\* (as of December 31, 2014)

Total Members: 209,075	Tier One		Tier Two		OPSRP		Eligible to Retire by Actuarial Group	% of Members Eligible to Retire
	Actives	Inactives	Actives	Inactives	Actives	Inactives		
State	5,953	2,917	3,719	997	4,056	607	18,249	34.19
School Districts	7,576	2,998	5,640	1,478	6,041	1,325	25,058	31.26
Local Govt.	6,244	2,523	3,958	1,283	4,254	928	19,190	29.97
Judges	45	3	39	1	---	---	88	44.44
Community Colleges	1,056	502	944	312	1,487	419	4,720	41.72
<b>Eligible to retire</b>	<b>20,874</b>	<b>8,943</b>	<b>14,300</b>	<b>4,071</b>	<b>15,838</b>	<b>3,279</b>	<b>67,305</b>	<b>32.19%</b>
<b>TOTAL</b>	<b>29,817</b>		<b>18,371</b>		<b>19,117</b>		<b>67,305</b>	<b>32.19%</b>

\* Reflects the number of members eligible to retire (including those eligible for reduced benefits) based on: age 55 or 30 years of service for general service members; age 50 or 25 years of service for police & firefighters; and age 60 for judge members.

# How Do We Affect System Balance?

$$B = C + E$$

**BENEFITS = CONTRIBUTIONS + EARNINGS**

present value of  
earned benefits

employer funds to pay  
those benefits

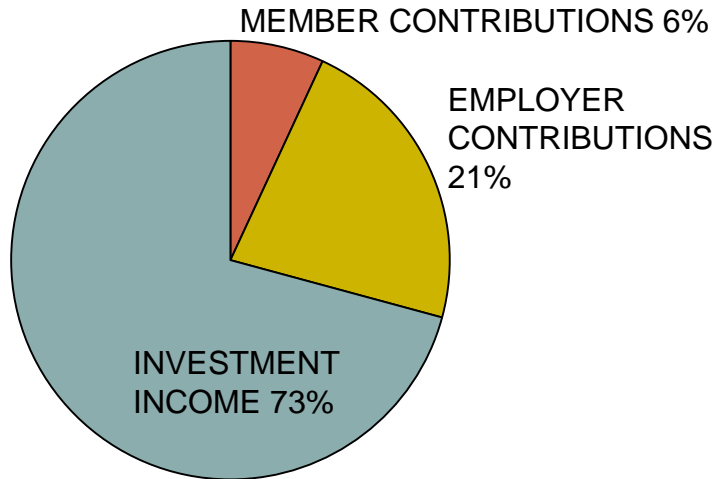
future returns on  
invested funds

**SET BY:**  
Oregon Legislature

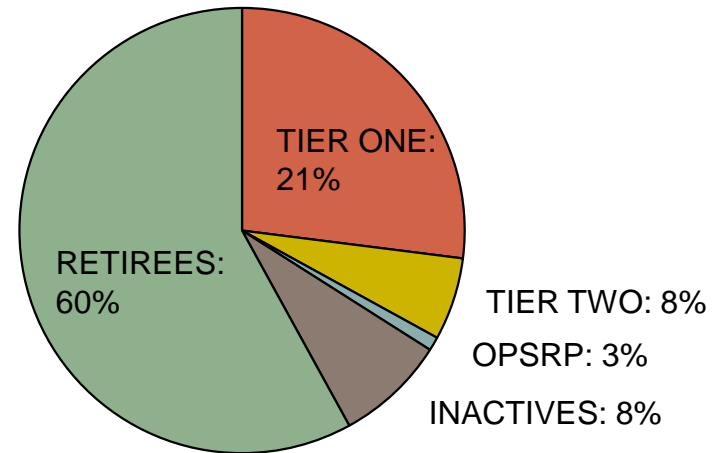
**SET BY:**  
PERS Board

**MANAGED BY:**  
Oregon Investment Council

# How Has PERS Been Funded?



Revenue by source (1970-2013)



Actuarial accrued liabilities (as of December 31, 2013)

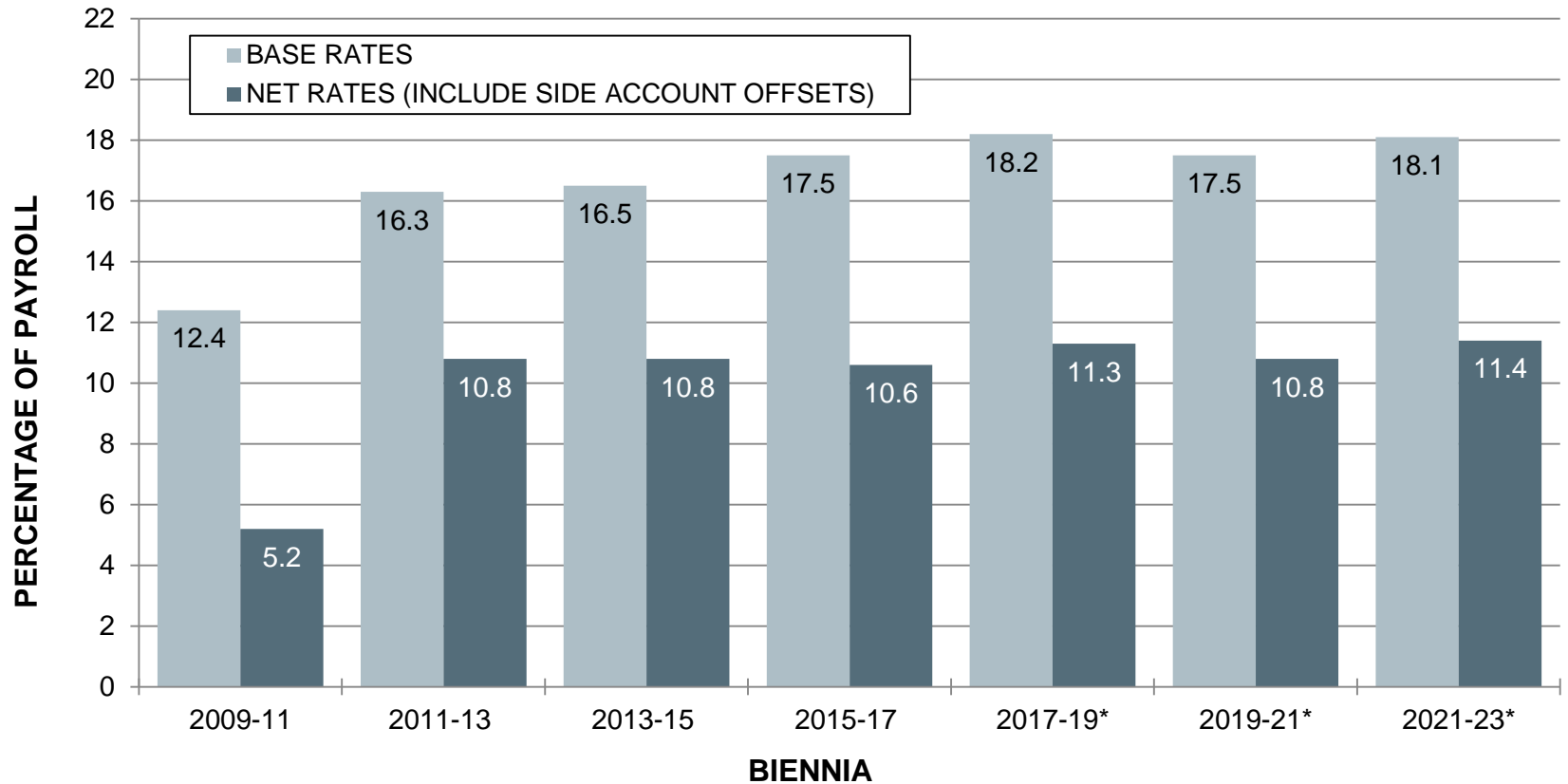
	Calendar Year (as of December 31)							
	2007	2008	2009	2010	2011	2012 <sup>1</sup>	2013	2014*
<b>Funded Status (%)</b>								
Including side accounts	112%	80%	86%	87%	82%	91%	96%	96%
Excluding side accounts	98%	71%	76%	78%	73%	82%	86%	86%
<b>Unfunded Actuarial Liability (UAL) (\$ B)</b>								
Including side accounts	\$ -6.1 <sup>2</sup>	\$11.0	\$8.1	\$7.7	\$11.0	\$5.6	\$2.6	\$2.75
Excluding side accounts	\$1.5	\$16.1	\$13.6	\$13.3	\$16.3	\$11.1	\$8.5	\$8.75

<sup>1</sup> Includes liability reductions from Senate Bills 822 & 861 and Board-adopted changes to actuarial methods and assumptions.

<sup>2</sup> This is a funding surplus. Side accounts are pre-payments made by employers.

\* 2014 is estimated.

# What Do Employer Contributions Look Like?



- EXCLUDES 6% MEMBER CONTRIBUTIONS AND PENSION OBLIGATION BOND DEBT SERVICE PAYMENTS
- INCLUDES TIER ONE, TIER TWO, AND OPSRP
- 2013-15 RATES REFLECT SENATE BILL 822 LIABILITY REDUCTIONS AND RATE DEFERRAL
- 2015-17 RATES REFLECT SENATE BILLS 822 AND 861 AND CHANGES IN ACTUARIAL ASSUMPTIONS BY THE PERS BOARD
- DOES NOT INCLUDE RHIA/RHIPA

\* PROJECTED BASED ON NOVEMBER 2014 MILLIMAN PRESENTATION

# What Does This Mean for 2015-17 Rates?

	2011-13	2013-15	2015-17
State & Local Government Rate Pool* (%)	10.07	10.17	12.44
School Districts* (%)	11.06	13.20	10.57
Independents (%)	13.04	15.10	16.75

\* The state and local governments participate in a rate pool, as do school districts. The base employer contribution rate is the same for all employers in a pool but the net rate varies depending on whether the employer has a side account (a pre-payment of employer contributions to PERS).

Independent employers are not part of a rate pool.

# How Variable are the Projections?

Milliman conducted a “stress test” of future rate projections in their financial modeling presentation to the PERS Board at its November 2014 meeting. The model evaluated the likelihood of certain events, looking at 10,000 investment return scenarios. Probabilities for some of those events to occur at some point during the next 20 years is shown below:

<b>Likelihood of Event Occurring at Some Point in Next 20 Years</b>	<b>Percent</b>
Funded status (excluding side accounts) > 100%	75%
Funded status (excluding side accounts) <60%	44%
Funded status (excluding side accounts) <40%	11%
Base rate (excluding retiree health care) >30% of pay	41%



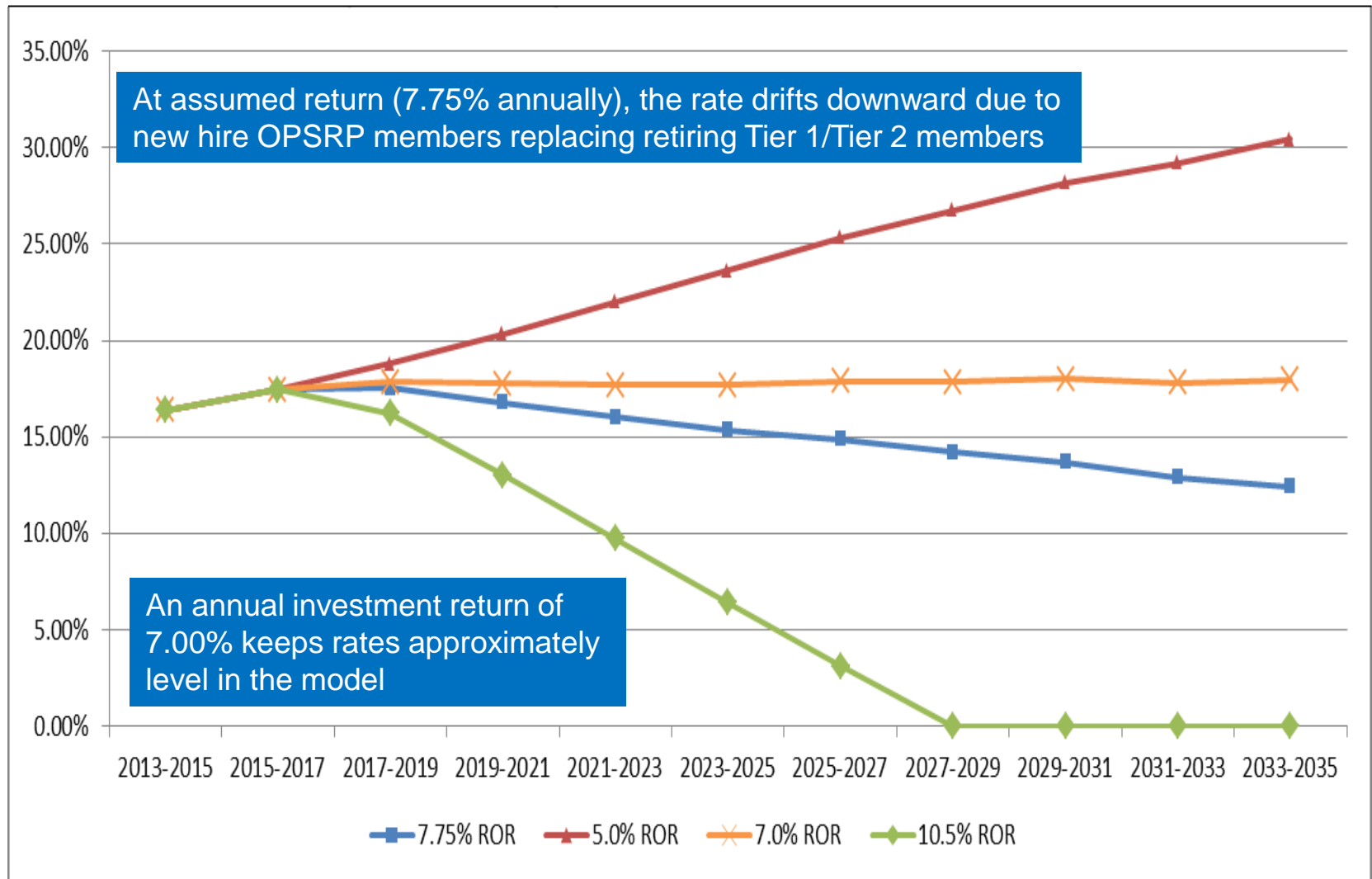
# Variable Model Stress Test

- This chart shows the probability of an employer contribution rate increase exceeding a certain threshold at any of the next three biennial rate changes (July 1 of 2017, 2019, and 2021):

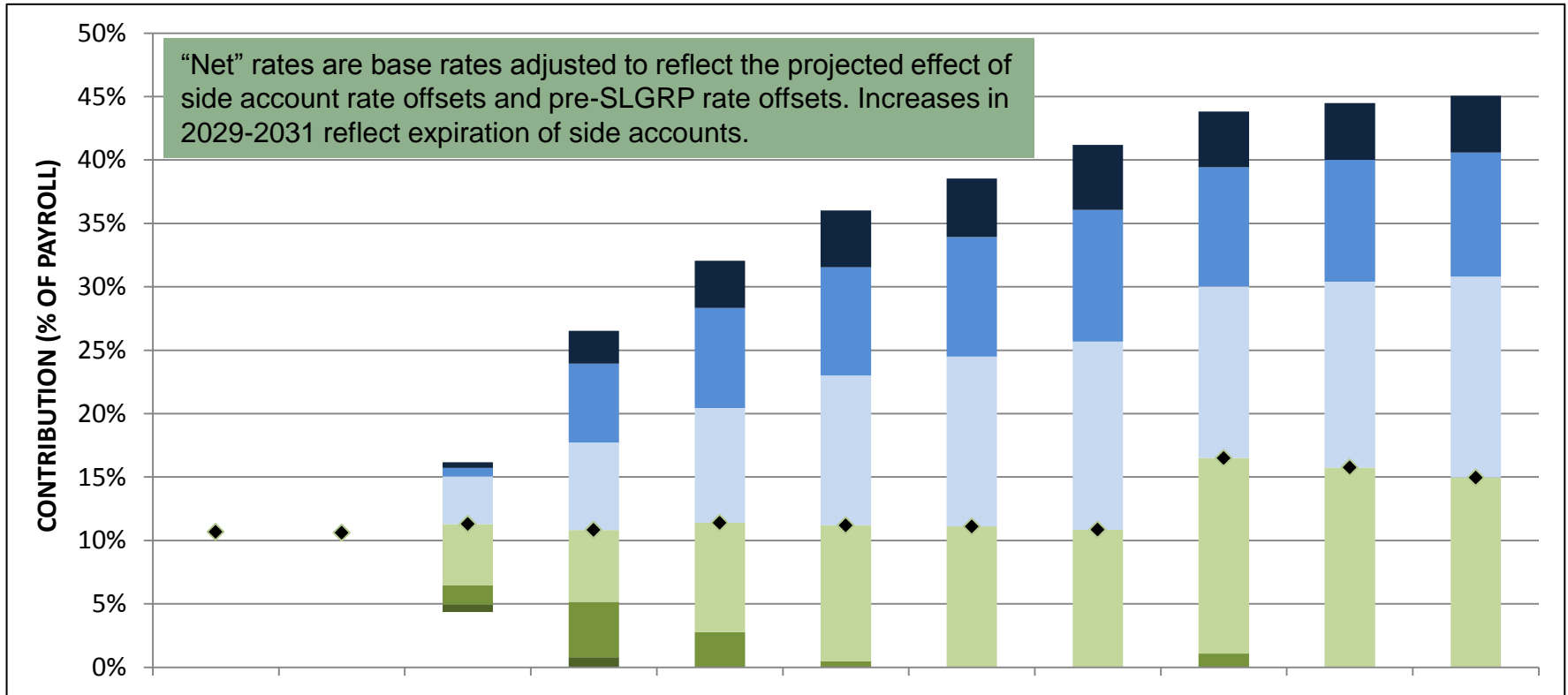
<b>Likelihood of a Biennial Rate Increase Exceeding Threshold at Some Point in Next Three Biennia</b>		
<b><u>Threshold Increase</u></b>	<b><u>Base Rate</u></b>	<b><u>Net Rate</u></b>
3% of pay	65%	68%
4% of pay	49%	62%
5% of pay	31%	47%

Comparison of Base Rate and Net Rate likelihoods illustrates the increased volatility associated with side accounts

# System Average Base Pension Rates

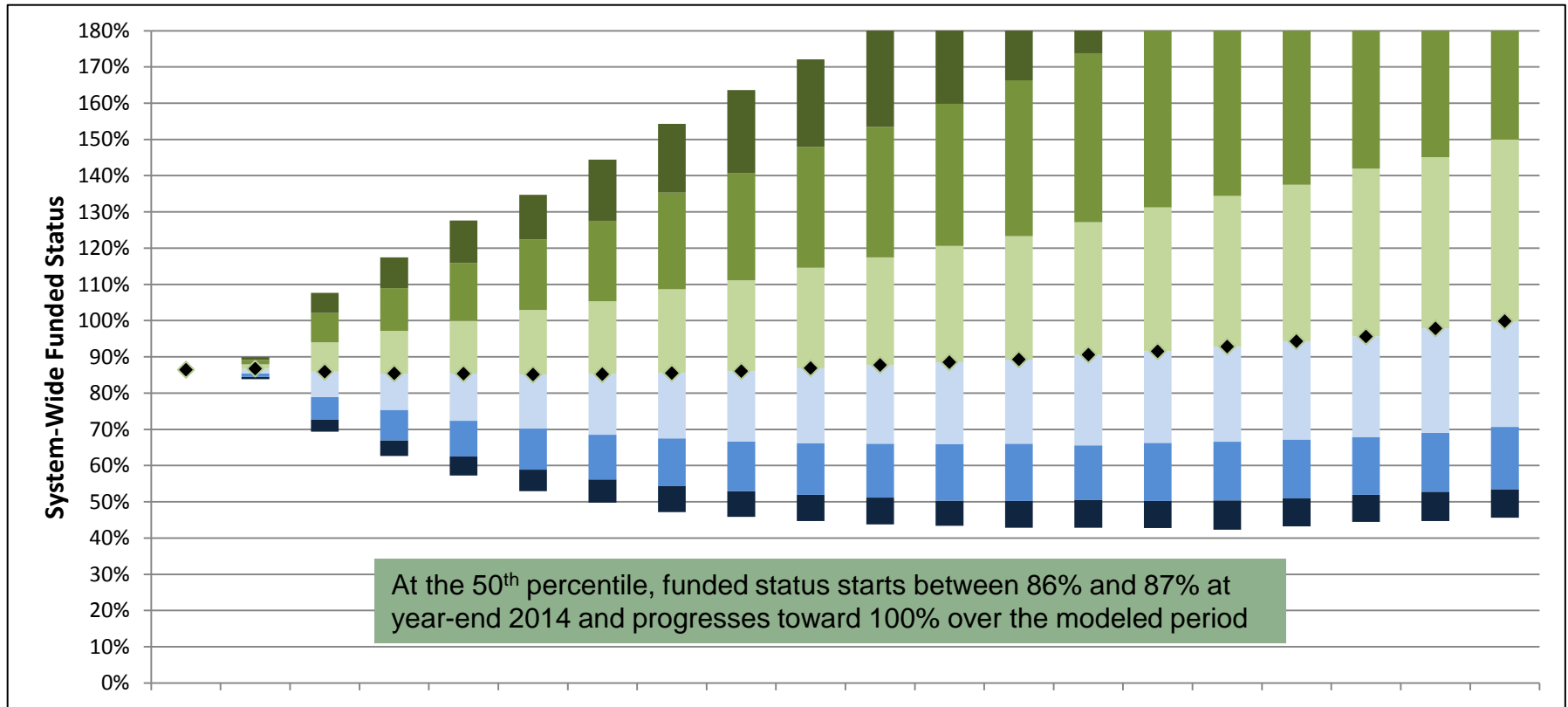


# System Average Net Contribution Rates



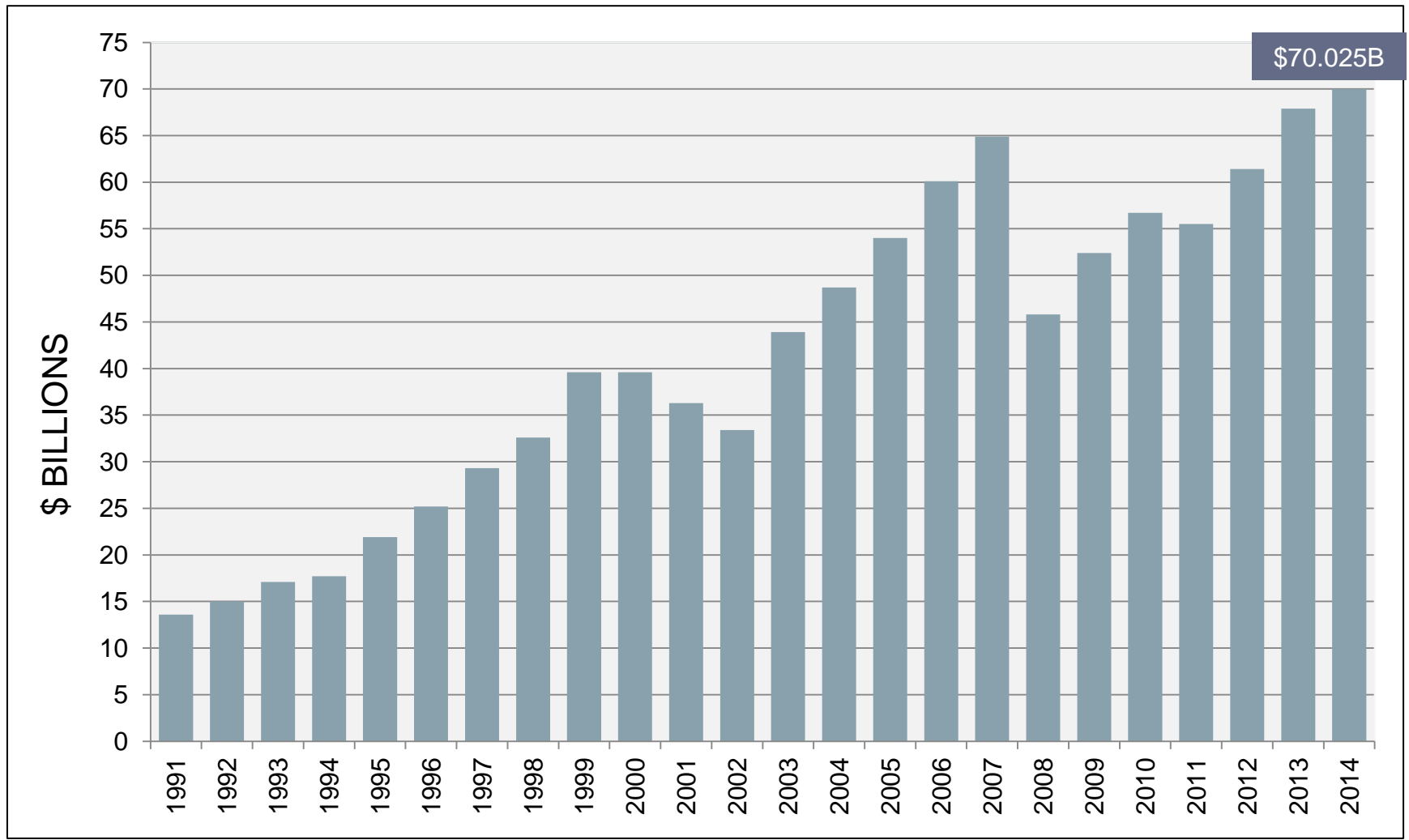
Biennium	2013-2015	2015-2017	2017-2019	2019-2021	2021-2023	2023-2025	2025-2027	2027-2029	2029-2031	2031-2033	2033-2035
5th	10.7%	10.6%	16.2%	26.5%	32.1%	36.0%	38.5%	41.2%	43.8%	44.5%	45.1%
10th	10.7%	10.6%	15.7%	23.9%	28.3%	31.5%	33.9%	36.1%	39.4%	40.0%	40.6%
25th	10.7%	10.6%	15.1%	17.7%	20.4%	23.0%	24.5%	25.7%	30.0%	30.4%	30.8%
50th	10.7%	10.6%	11.3%	10.8%	11.4%	11.2%	11.1%	10.8%	16.5%	15.8%	15.0%
75th	10.7%	10.6%	6.5%	5.2%	2.8%	0.5%	0.0%	0.0%	1.1%	0.0%	0.0%
90th	10.7%	10.6%	5.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
95th	10.7%	10.6%	4.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

# Funded Status Excluding Side Accounts



PY Ending 12/31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
95th	86.4%	89.9%	107.6%	117.4%	127.6%	134.7%	144.4%	154.3%	163.6%	172.1%	181.5%	193.2%	204.3%	213.1%	226.6%	239.1%	248.0%	263.8%	280.2%	295.3%
90th	86.4%	89.2%	102.1%	108.9%	115.9%	122.4%	127.6%	135.3%	140.7%	147.9%	153.5%	159.8%	166.3%	173.8%	180.7%	189.9%	198.9%	205.8%	215.5%	222.7%
75th	86.4%	88.0%	94.0%	97.1%	99.9%	102.9%	105.4%	108.7%	111.1%	114.6%	117.5%	120.6%	123.3%	127.2%	131.3%	134.4%	137.5%	141.9%	145.1%	150.0%
50th	86.4%	86.7%	85.9%	85.4%	85.4%	85.1%	85.2%	85.5%	86.0%	86.9%	87.7%	88.5%	89.3%	90.6%	91.5%	92.8%	94.3%	95.6%	97.9%	99.8%
25th	86.4%	85.5%	78.9%	75.4%	72.3%	70.2%	68.5%	67.5%	66.7%	66.1%	66.1%	66.0%	66.0%	65.6%	66.3%	66.6%	67.2%	67.9%	69.0%	70.7%
10th	86.4%	84.5%	72.7%	67.0%	62.5%	58.9%	56.2%	54.3%	53.0%	51.9%	51.1%	50.3%	50.3%	50.5%	50.3%	50.4%	50.9%	51.9%	52.8%	53.4%
5th	86.4%	83.9%	69.3%	62.7%	57.2%	52.9%	49.8%	47.1%	45.9%	44.7%	43.8%	43.4%	42.8%	42.8%	42.7%	42.3%	43.2%	44.5%	44.7%	45.6%

# PERS Fund Value at Calendar Year-End



# What Has the PERS Board Done on the “C”?

The PERS Board has adopted employer rates to be effective July 1, 2015; these rates were based on the system valuation as of December 31, 2013. That valuation used methods and assumptions that were changed by the PERS Board in September 2013:

- Reduced the Assumed Rate from 8% to 7.75%
- Changed the actuarial cost allocation method to Entry Age Normal
- Re-amortized accumulated Tier One/Two liabilities over 20 years
- Modified the rate collar

NOTE: In summer 2015, the PERS Board will again review the actuary’s recommended changes to methods and assumptions that will first effect employer rates to be adopted for July 1, 2017.

(See LFO Budget Information Brief 2014-5)

# What's Been Done to the "B"?

2003

Legislature passed 2003 PERS Reform (HBs 2003, 2004, 3020)

- OPSRP created: lower benefit structure for new hires (higher retirement ages, reduced factor)
- 6% member contribution diverted to Individual Account Program; reduced growth in Money Match benefit liabilities and started shifting to Full Formula as predominant method
- Limited Tier One regular account crediting to assumed rate; established Rate Guarantee Reserve

2005

Supreme Court upholds elements of PERS Reform legislation; PERS begins adjusting member accounts and benefits in light of 1999 earnings over-crediting, reducing accounts balances for active Tier One members and reducing benefits for Tier One retired members

2011

Legislature eliminates one form of tax remedy benefit calculation for retired members who move out of state on or after January 1, 2012

2013

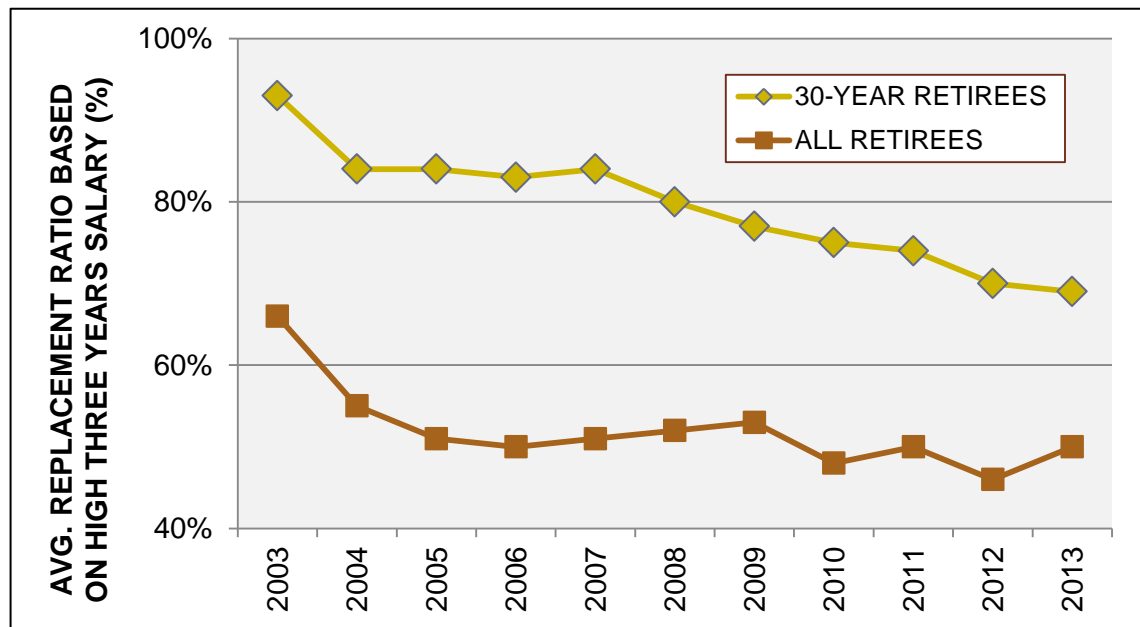
Legislature enacts 2013 PERS Cost reductions (SBs 822 and 861):

- Cost-of-Living Adjustment (COLA) reduced: 1.5% instead of 2% for August 1, 2013; 1.25% on the first \$60,000 of an annual benefit and 0.15% on amounts above \$60,000 beginning August 1, 2014
- Supplementary payments annually of 0.25% to all benefit recipients (not to exceed \$150) through 2019; second supplementary payment of 0.25% if benefit is \$20,000 or less annually
- Eliminated all tax remedy benefits for recipients who do not pay taxes Oregon income taxes because they do not reside in Oregon

# The Results

2003 PERS Reform reduced the growth in accounts for PERS Tier One and Two members, reducing replacement ratios (monthly retirement benefit compared to salary). The average replacement ratio is about 50% for long-serving members (more than 30 years of service).

Member contributions that were diverted to the Individual Account Program are not included in the replacement ratio, but are growing into a significant contributor to retirement income.





# What's Left to be Decided?

- Both Senate Bills 822 and 861 (2013) were challenged in the Oregon Supreme Court (a decision is pending)
- Those cost savings reduced accrued liabilities by ~\$5 billion (calculated as of 12/31/2011) and resulted in lowering employer rates for the 2013-15 biennium by 4.4% of payroll
- If the Supreme Court overturns these cost reductions:
  - Benefit recipients would have to be refunded about \$130-155 million in unpaid COLAs and tax remedy benefits
  - About \$6.1 billion in accrued liabilities would come back on the books as of 12/31/2015, raising employer rates by ~5.5% of payroll (probably not until July 1, 2017)

(See LFO Budget Information Brief 2014-6)

# Where Does This Leave the System?

Transaction	2012	2013	2014
Retirements*	13,765	16,354	15,966
Withdrawals	5,971	5,030	5,076
Eligibility reviews	15,966	17,256	49,646
Telephone call (incoming/outgoing)	215,568	243,443	205,379
Emails (incoming)	112,737	118,337	134,844
Written benefit estimates	10,616	11,656	10,921
Online benefit estimates**	137,057	163,412	870,470

\* Including IAP

\*\* 2014 includes all activity; new estimates, reviewing old estimates, etc.; 2012 and 2013 included only new estimates.