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2015-17 PERS Employer Rates and PERS Board Administrative Changes

Average or "blended" system-wide Public Employee Retirement System (PERS) employer rates are expected to decline slightly for the 2015-17 biennium.[1,2] Blended state agency employer contribution rates, however, are expected to increase for the upcoming biennium. This budget brief explains the reasons for the increase.

Executive Summary

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 lowering of employer contribution rates due to statutory reforms and strong investment returns have been counteracted, in part, by PERS adopted administrative changes as well as continued rate collaring for some employers, which spread the rate increase from 2008 investment losses over the 2011-13, 2013-15, and 2015-17 biennia.

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.

Legislative Benefit Reform

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 and eliminated the out-of-state tax remedy for benefit recipients. The net reduction in system-wide accrued liabilities is $5 billion with a corresponding 4.4% reduction to employer rates. For the 2013-15 biennium, the combined reforms generally kept state agency employer rates at the same level as the 2011-13 biennium, and, if actuarial assumptions continue to be met, will alleviate upward pressure on employer rates into the future.

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[1] http://www.oregon.gov/pers/docs/board_information/board_meeting_2014/board_packet_7-25.pdf and https://www.oregonlegislature.gov/lfo/Documents/2012-2PERSEmployerRateBrief.pdf

[2] The blended or weighted average refers to the weighting between the payroll attributable to specific retirement programs (i.e., Tier1/Tier 2; Oregon Public Service Retirement Plan).

Investment Earnings

Investment earnings fund over 71% of pension costs. Investment returns for calendar years 2012 and 2013 are used in determining 2015-17 biennium employer rates. The Public Employees Retirement Fund had strong earnings for calendar years 2012 (+14.68%) and 2013 (+15.62%), as compared to the 8% assumed earnings rate used in actuarial calculations.[3] The assumed rate was later reduced to 7.75% starting in 2014.

According to the PERS actuary, investment earnings for these two years reduced system-wide accrued liabilities by $6.4 billion. System-wide unfunded liabilities are now estimated to be $2.6 billion, as of December 31, 2013, which means that the system is 96% funded. This is the highest funding level since 2007.

Agency Administrative Changes

In September 2013, the PERS Board administratively enacted four changes to the methods and assumptions used by the PERS actuary to conduct the system valuation, which is used to determine employer contribution rates. These included: (a) reducing the assumed earnings rate from 8% to 7.75%; (b) changing the actuarial cost methodology from Projected Unit Credit to Entry Age Normal; (c) re-amortizing accumulated Tier 1 & 2 unfunded liabilities over 20 years; and (d) modifying the rate collar.[4] In general, the first two changes increased employer rates, while the third change reduced employer rates. The last change has had no impact to date.

The assumed earnings rate was reduced to reflect lower future expected earnings. The actuarial cost method was changed to Entry Age Normal in anticipation of a Governmental Accounting Standards Board modification.[5] The re-amortization was done to limit the associated increase in employer rates due to the previous two actions while still resolving the unfunded liability within a reasonable period. According to the agency, these actions were taken to strengthen the long-term financial health of the PERS system rather than influence employer contribution rates.

Actuarial analyses of the cost of these administrative actions, in terms of their net change to system-wide accrued liabilities or employer rates, either individually or cumulatively, were not undertaken. Instead, the PERS Board relied upon high-level estimates of the cumulative impact prepared by its actuarial firm. This approach was taken, according to the agency, because the interdependent nature of the administrative changes would have been masked by individual analyses.

The fiscal impact statement for SB 822 excluded the impact of the Board actions as they had yet to be adopted. The fiscal impact for SB 861 also did not include the impact of the Board's approved administrative actions.

Average Employer Contribution Rate Changes

The following table shows the (blended or weighted) average contribution rates for the entire system and for two of the major employer rate pools. The average contribution rates exclude member contributions; however, a perfect comparison between these rates is not possible as the system-wide average rate excludes retiree health care whereas the State and Local Government and School District rate pools include the cost of retiree health care. It is also noteworthy that no single employer pays the average rate.

[3] Earnings are quoted for Tier 2, which is considered representative of market returns.
[4] For a detailed discussion of rate collaring refer to:
https://www.oregonlegislature.gov/lfo/Documents/2014-2PERS_RateCollar.pdf
[5] Refer to Governmental Accounting Standards Board financial reporting Statements 67 and 68.

Average Contribution Rates *excluding* Member Contributions and/or "Pickups"*	2013-15	2015-17	Percent Difference	Percent Change
System-wide	10.80%	10.61%	(0.19%)	(1.8%)
School Districts	13.29%	9.88%	(3.41%)	(25.7%)
State and Local Government Rate Pool	10.09%	11.27%	+1.18%	+11.7%

*Data from the Milliman actuarial presentation to the PERS Board on July 25, 2014.

The aggregate impact of statutory and administrative changes, plus strong investment returns, has had differing impacts, even though the School District and State and Local Government Rate pool had the level of their unfunded liabilities reduced by half. The disproportionately smaller School District payroll meant that the unfunded accrued liability (UAL) reduction had a larger impact (i.e., reduction) to School District contribution rates.

The system-wide average employer rate experienced a modest decline (0.19%) while remaining subject to minor rate collaring. The average School District rate experienced a significant decline (3.41%) and is no longer subject to rate collaring. In absence of rate collaring, employer rates become more sensitive to investment returns, especially for school districts that are more heavily invested in side accounts (i.e., reserve accounts used to offset employer contributions over time). The average rate for the State and Local Government Rate Pool, however, will see a material increase (1.18%) while remaining subject to rate collaring. A collared employer contribution rate is less sensitive to investment returns.

State Agency Net Fiscal Impact

The State of Oregon uses more specific employer contribution rates for budgeting purposes than the average rate for the State and Local Government Pool. The blended contribution rate estimate for the 2013-15 biennium for most state agencies, post-reform, is 8.67%, excluding the 6% employer pickup.[6] The preliminary blended rate estimate for the 2015-17 agency request budget level is 9.79%. This is a +1.12% change in the employer rate, or a 12.9% increase. In rough dollar terms, the fiscal impact of this increase is estimated to be approximately $48.6 million total funds (General, Lottery, Other, and Federal).

In September, the PERS Board adopted employer-specific rates for the 2015-17 biennium. Those rates are not expected to change materially from the averages discussed in this brief.

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This brief is available on the Legislative Fiscal Office website at www.oregonlegislature.gov/lfo

[6] The blended rates quoted are for state agencies without significant police and fire employees.