

Overview of Contingency Reserve Funding and Distributions

Senate Committee on Workforce

**Steven Patrick Rodeman
PERS Executive Director**

March 1, 2017



PERS Earnings Crediting Reports

ORS 238.670(5) directs the PERS Board to submit a preliminary earnings crediting report to the legislature at least 30 days prior to making any final allocation

- On January 31, 2017, the PERS Board submitted its preliminary earnings crediting report to the Joint Committee on Ways & Means co-chairs (a copy of that report was included in the committee materials for this presentation)
- That report will be presented to the General Government Subcommittee who, in the past, has acknowledged receipt of the report

In that report, the PERS Board highlighted a pending decision to allocate excess funds currently held in the Contingency Reserve, and solicited comments from stakeholders on whether and how that allocation should occur.

Contingency Reserve Allocation – Background

ORS 238.670 allows the PERS Board to allocate earnings in excess of the assumed earnings rate (7.5%) in any given year to the Contingency Reserve. Funds in that reserve can be used for specified purposes, but there is a “catch-all” that allows the PERS Board broad discretion in allocating those funds. The following table lists recent allocations from the reserve:

| Calendar Year | Amount Allocated | Purpose |
|---------------|------------------|--|
| 2004 | \$1,629 million | Reduce Contingency Reserve balance to \$250M |
| 2006-08 | \$ 5 million | Pay member and employer costs for LSVP change |
| 2011 | \$ 199 million | Liquidate 2008 Tier One Rate Guarantee deficit |
| 2014 | \$ 7 million | “Final Average Salary” settlement |
| 2016 | \$ 67 million | <u>Moro</u> COLA restoration payments to members |

Funds held in the Contingency Reserve (and the Tier One Rate Guarantee Reserve) are not factored into the system valuation as assets available to pay liabilities (i.e., benefits). When those funds are instead allocated to member or employer accounts and reserves, the available assets increase and the system’s unfunded actuarial liability is reduced.

Contingency Reserve Allocation – Status

Currently, the reserve has an existing balance of \$583.7 million. Of this balance:

- \$25 million was set aside from earnings on Employer Reserves, as directed by statute, to be applied against any deficit in the fund by reason of an insolvent employer
- Approximately \$21.8 million was authorized by the PERS Board at its November 18, 2016 meeting to be applied against the costs of resolving the OPSRP Contribution Start Date issue, as requested by the agency's Employer Advisory Group
- All the material costs for the *Moro* Project (restoring COLA that was not paid because of the 2013 legislation that was later overturned) have already been recovered

After allowing for these costs and commitments, the remaining balance in the Contingency Reserve as of the end of calendar year 2016 is a \$536.3 million.

At its March 28, 2016 meeting, the Board adopted a funding level for the Contingency Reserve of 0.25% of the system's accrued liability. Based on the December 31, 2015 system valuation, the Contingency Reserve is currently over-funded by \$345.8 million.

Contingency Reserve – Pending Action

Using the funding level for the Contingency Reserve at 0.25% of the system's accrued liability, the Contingency Reserve is currently over-funded by \$345.8 million based on the December 31, 2015 system valuation. As in the past, when the PERS Board has determined that this reserve is over-funded, there are a number of options for lowering this reserve to the designated level:

- Redistribute the excess funding proportionally to those accounts and reserves whose earnings are used to fund the Contingency Reserve;
- Credit the excess funding to an existing reserve or account (e.g., the Benefits-in-Force Reserve to support future benefit payments or, previously, this reserve was used to eliminate the deficit from 2008 in the Tier One Rate Guarantee Reserve);
- Retain the excess funding in the Contingency Reserve and allow future charges against the reserve or growth in the system's accrued liability gradually move towards the adopted funding level;
- Apply the excess funding towards other purposes, as this reserve can be used to provide for any contingency that the PERS Board may determine to be appropriate.

The PERS Board has asked for stakeholder comments by March 15, 2017, so they can consider them when they make a final decision at their April 3, 2017 meeting.

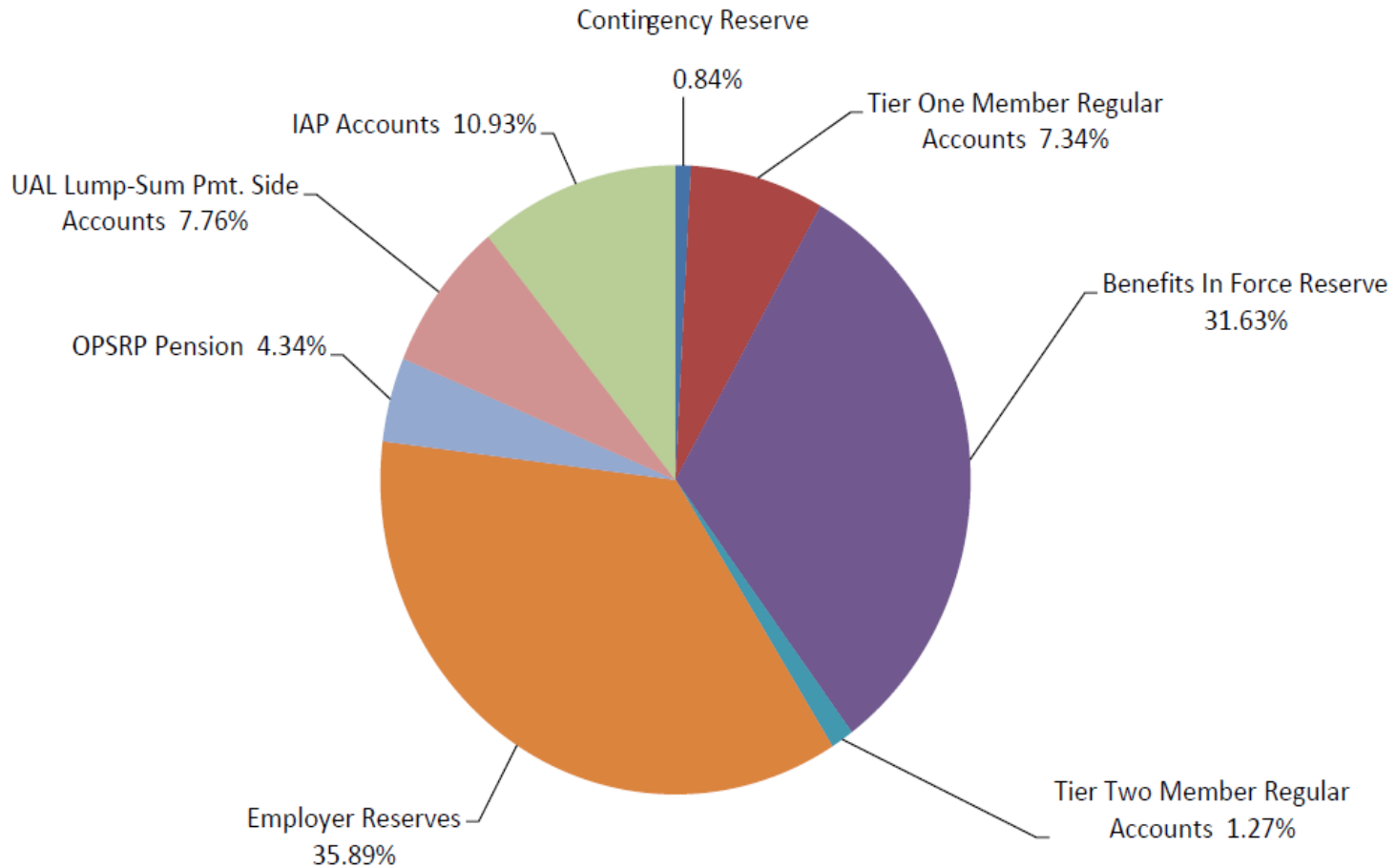
Preliminary 2016 Earnings Crediting (\$M)

| Reserve/Account | Balance Before Crediting | 2016 Crediting | Balance After Crediting | 2016 Rates |
|----------------------------------|--------------------------|------------------|-------------------------|------------|
| Contingency Reserve | 583.7 | | 583.7 | N/A |
| Tier One Member Regular Accounts | 4,575.5 | 343.2 | 4,918.7 | 7.50% |
| Tier One Rate Guarantee Reserve | 183.2 | (3.9) | 179.3 | N/A |
| Benefits-In-Force (BIF) Reserve | 20,498.8 | 1,461.3 | 21,960.1 | 7.12% |
| Tier Two Member Regular Accounts | 819.9 | 58.4 | 878.3 | 7.12% |
| Employer Reserves | 23,258.5 | 1,657.7 | 24,916.2 | 7.12% |
| OPSRP Pension Program | 2,817.1 | 198.8 | 3,016.0 | 7.06% |
| Employer Side Accounts | 5,004.6 | 382.0 | 5,386.6 | Various* |
| IAP Accounts** | 7,085.8 | 505.9 | 7,591.7 | 7.14% |
| Regular Account Total | \$64,827.1 | \$4,603.5 | \$69,430.6 | |

* Side account earnings rates for lump sums on deposit vary depending on when the deposit was made within the calendar year and are not affected by Board reserving or crediting decisions.

** Informational only; not affected by Board reserving or crediting decisions.

PERS Reserve Balances After Crediting



For More Information

Website

<http://www.oregon.gov/pers>

Resources

- **“PERS by the Numbers”** – Approachable summary of information about PERS benefits, demographics, and system funding
- **Board agendas and materials** – Including actuarial presentations from Milliman, information about administrative rules, and other information

Executive Director

Steven Patrick Rodeman

steven.p.rodeman@state.or.us

Senior Policy Director

Marjorie Taylor

marjorie.taylor@state.or.us

503-431-8902