

**Public Employees Retirement System
2016 Preliminary Earnings Crediting**

On March 9th, the General Government Subcommittee recommended acknowledging receipt of a report from the Public Employees Retirement System on the preliminary crediting of 2016 investment earnings, with the direction that prior to the allocation of any Contingency Reserve funds the PERS Board report to the Joint Committee on Ways and Means on the Board's specific recommendation as to which accounts the reserve funds should be deployed to and the associated rationale.

The PERS Board approved preliminary earnings crediting of \$4.6 billion for 2016, which increases reserves from \$64.8 billion to \$69.4 billion. The overall investment return was 7.1%, which is below the assumed earnings rate of 7.5%.

- Tier One regular accounts are to be credited at 7.5%, with reserves making up the difference between actual earnings of 7.1 % and the 7.5% assumed earnings rate;
- Tier Two regular accounts are to be credited at 7.12%;
- Variable accounts are to be credited at 8.77%, before expenses; and
- Individual Account Program accounts are to be credited at 7.14%.

Since earnings for 2016 were below the assumed rate of 7.5%, no funds are credited to reserve accounts. PERS reports that an update to the systems funded status and future employer rates will not occur until later this fall.

The 2016 earnings crediting report makes note of an overfunding of the PERS Contingency Reserve by \$345.8 million out of the \$583.7 million balance. The

overfunding of the Contingency Reserve has been an issue for the Legislature beginning with the 2012 earnings crediting report. Reserve funds are not accounted for in actuarial valuations and the deployment of any amount of reserves to member regular accounts and employer accounts would reduce employer rates.

While the General Government Subcommittee believes that the decision to allocate Contingency Reserve funds is prudent, additional detail on the nature of the allocation was requested from the agency.

The General Government Subcommittee recommends approval.