

Oregon Public Employees Retirement System

2016 Preliminary Earnings Crediting and Contingency Reserve Allocation

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

**Steven Patrick Rodeman
Executive Director**

March 9, 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 is included as an appendix to this presentation).

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 some 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.

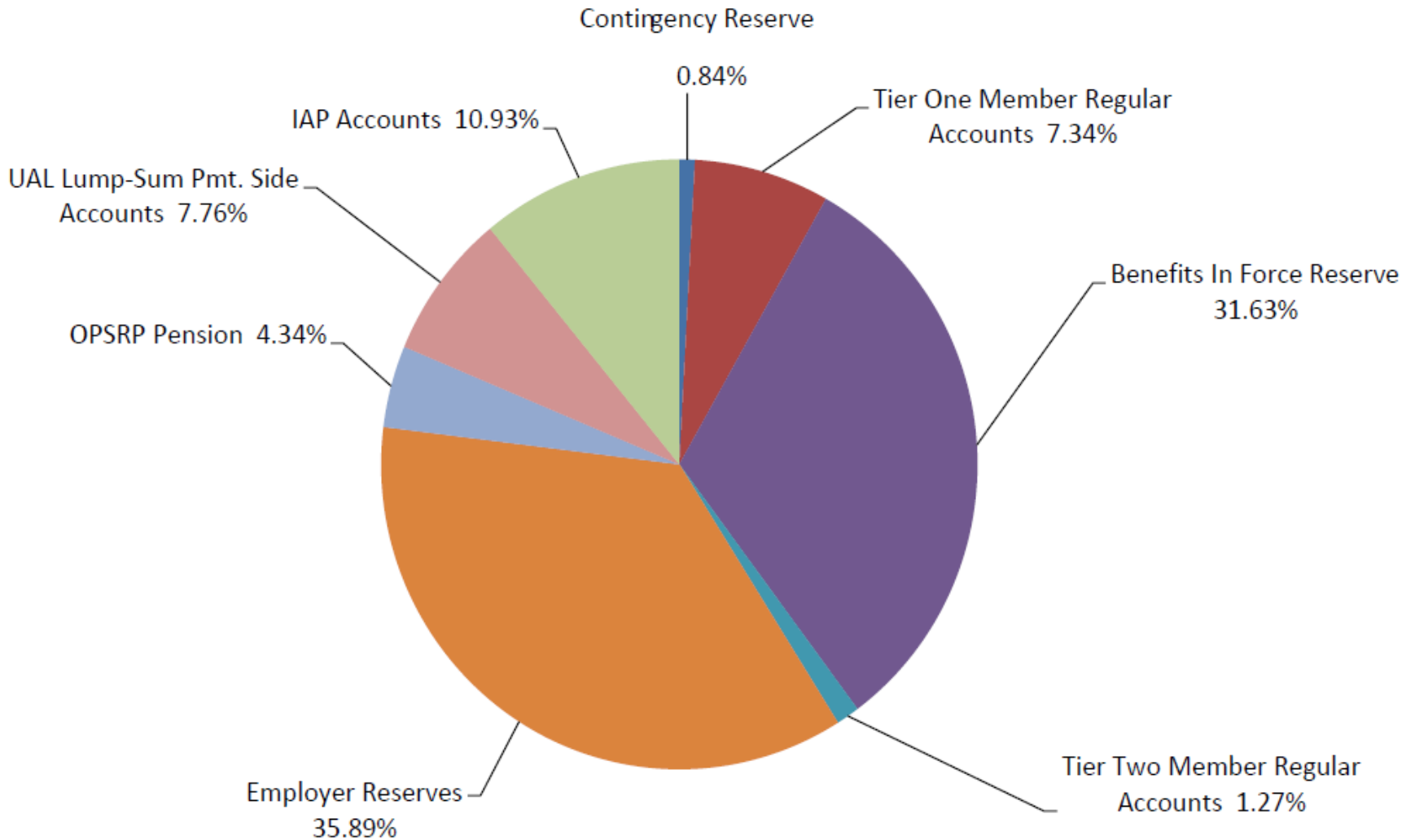
Preliminary 2016 Earnings Crediting (\$M)

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



Appendix 1: Preliminary Earnings Crediting Letter



Oregon

Kate Brown, Governor

Public Employees Retirement System

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January 31, 2017

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Nancy Nathanson, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Public Employees Retirement System (PERS) requests acknowledgement of receipt of this report on the PERS Board's preliminary crediting of 2016 earnings received through investment of the Oregon Public Employees Retirement Fund (OPERF) Regular Account. This report is provided in accordance with ORS 238.670(5), which requires PERS to submit a preliminary earnings crediting report to the appropriate legislative committee at least 30 days prior to the final allocation of earnings to member and employer accounts and other reserves. Final earnings crediting is currently scheduled for the PERS Board's April 3, 2017 meeting.

Agency Action

On January 27, 2017, the PERS Board preliminarily approved the allocation of approximately \$4.60 billion in OPERF Regular Account 2016 earnings to member and employer accounts and other reserves.

In this preliminary action, the Board allocated earnings (net of expenses and other adjustments) at a rate of 7.12% to the Benefits-In-Force Reserve, 7.12% to Employer Reserves, 7.12% to Tier Two member regular accounts, 7.14% to Individual Account Program accounts, and 7.06% to the OPSRP Pension Reserve. When earnings exceed the assumed rate, the PERS Board may make an allocation to the Contingency Reserve. 2016 earnings did not exceed the assumed earnings rate of 7.50%, so the Board could not make an allocation.

The Board also preliminarily approved crediting earnings at the assumed rate of 7.50% to Tier One member regular accounts, as required by ORS 238.255. The Tier One Rate Guarantee Reserve, established under ORS 238.255(1), is used to fund crediting of the assumed rate to Tier One member regular accounts when earnings are less than the assumed rate. A transfer of \$3.9 million from the existing reserve will be credited to Tier One member regular accounts for 2016 earnings crediting, resulting in a remaining balance of \$179.3 million in that reserve.

Contingency Reserve Discussion

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. As in the past, when the PERS Board has determined that this reserve is over-funded, there are a number of options for lowering that reserve to the designated level:

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- Redistribute the excess funding proportionally to those accounts and reserved 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 to gradually move towards the adopted funding level; or
- 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.

To the extent that the Contingency Reserve is deployed to member or employer accounts and reserves, those funds would increase the assets available to be applied against the plan's liabilities and reduce the system's unfunded actuarial liability. Funds held in the Contingency Reserve (and the Tier One Rate Guarantee Reserve) are not factored into the system valuation.

Given the PERS Board's broad discretion and the substantial amount of excess funds, the Board is seeking stakeholder input on a proposed reallocation. The Board has requested that stakeholders forward suggestions or considerations to staff by March 15, 2017, when they will be compiled and evaluated for consideration at the April 3, 2017 Board meeting.

A summary of the Board's preliminary decisions is reflected in the attached exhibit.

PERS staff is available to report to the Legislature and answer questions regarding the Board's preliminary decisions at your discretion.

Action Requested

PERS requests the Committee acknowledge receipt of the report.

Legislation Affected

No legislation is affected by this request.

Sincerely,



Steven Patrick Rodeman
Executive Director

Attachment

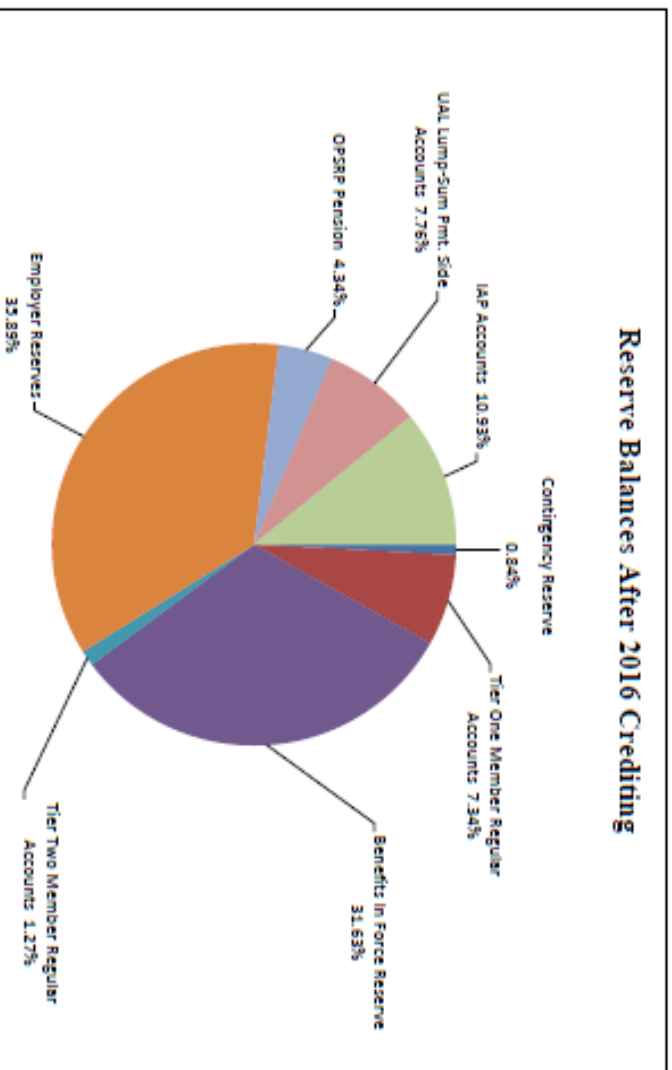
Preliminary 2016 Crediting and Reserving

Oregon Public Employees Retirement System Preliminary 2016 Crediting and Reserving

(All dollar amounts in millions)

	Reserves Before Crediting	2016 Crediting	Reserves After Crediting	2016 Rates
Contingency Reserve	\$583.7	-	\$583.7	N/A
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*UAL Lump-Sum Pmt. Side Accounts	5,004.6	382.0	5,386.6	Various
*IAP Accounts	7,085.8	505.9	7,591.7	7.149%
Total	\$64,827.1	\$4,603.5	\$69,430.6	

Reserve Balances After 2016 Crediting



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IAP accounts receiving installments have already received 2016 earnings.

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