

# Individual Account Program

Aligning risk with beneficiary age

**Joint Committee on Ways & Means  
General Government Subcommittee  
Feb. 21, 2018**



**Oregon State Treasury**

Tobias Read, State Treasurer

# What is the Individual Account Program?



- PERS Reform
- Created by the 2003 Legislature



- Created a separate “account-based benefit” for public workers
- Invested in the Oregon Public Employees Retirement Fund
- 6 percent of salary



- No state guarantee – performance is based solely on realized, market-based returns
- Supposed to supply as much as 15-20 percent of salary replacement
- Danger: Market losses on the eve of retirement



# The bottom line: Aligning risk and age is an investment best practice

- Addressed risk of “One-size-fits-all” format
- Pension fund is invested for long term returns, not capital protection
- Higher risk of losses as workers near retirement; Younger workers would benefit from more equity exposure
- Oregon Investment Council authorized investment policy change in August 2017 to new model that better aligns risk tolerance and age
- The switchover occurred seamlessly at the end of 2017



IAP Report, Oregon Treasury, 2018



# Doing Business the Right Way

VISION STATEMENT

Leading the way for Oregonians to achieve long-term financial security

MISSION STATEMENT

To provide financial stewardship for Oregon.

PROTECTING OREGON'S FINANCES

\$102 B

Assets under management

\$230 B

Bank transactions supported annually

\$13 B

State bonds outstanding issued and tracked

\$2.7 B

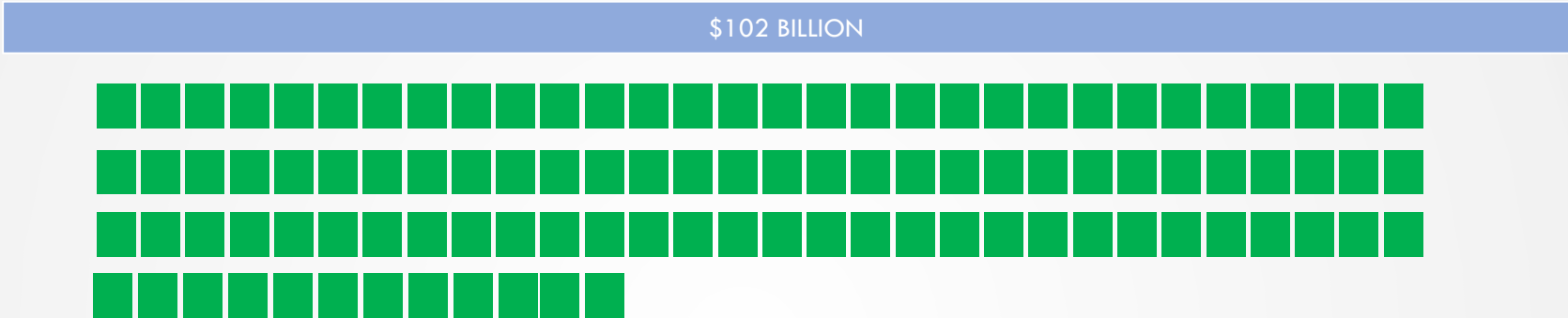
Oregon 529 Savings assets

\$2.2 B

Public funds protected at qualified depositories



# Doing Business the Right Way

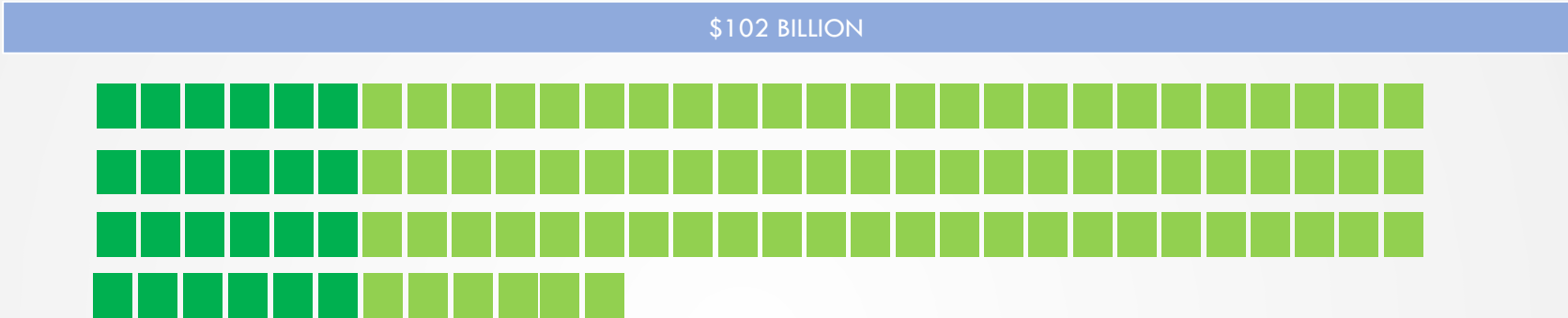


**\$102 B**  
Assets under  
management





# Doing Business the Right Way



**\$102 B**  
Assets under  
management

**\$77.2 B**  
Oregon Public  
Employees  
Retirement Fund

**\$8 B**  
Individual Account  
Program balances



# Business case: A rational investment reform

A **mismatch** between individual members' age and risk tolerance and a one-size-fits-all investment framework is inconsistent with industry best practice

**2015**

- Flagged in internal reviews as material risk, discussed with PERS

**2016**

- Audit published

**2017**

- Oregon Investment Council works with PERS, communicates with beneficiaries
- OIC approves new Target-Date Fund framework and manager
- Communications include new website, newsletters, media outreach

**2018**

- Custom Target-Date Funds go into effect
- Consideration of potential mechanics for investor choice



# What is a Target-Date Fund?

- The target date is the approximate year when you expect to retire and begin withdrawing from your account.
- A target date fund adjusts its investments over time, automatically.
- The IAP Target-Date-Fund manager is AllianceBernstein
- The custom, hybrid model maintains exposure to OPERF for all participants — at varying levels — while making changes on the margins to better match participant's risk exposure and age.





# The bottom line: Aligning risk and age is an investment best practice

## OLDER WORKERS

**MORE CAPITAL PROTECTION:** Risk of experiencing a loss of 10% or more in a single year at retirement age is one-sixth of what it was previously.

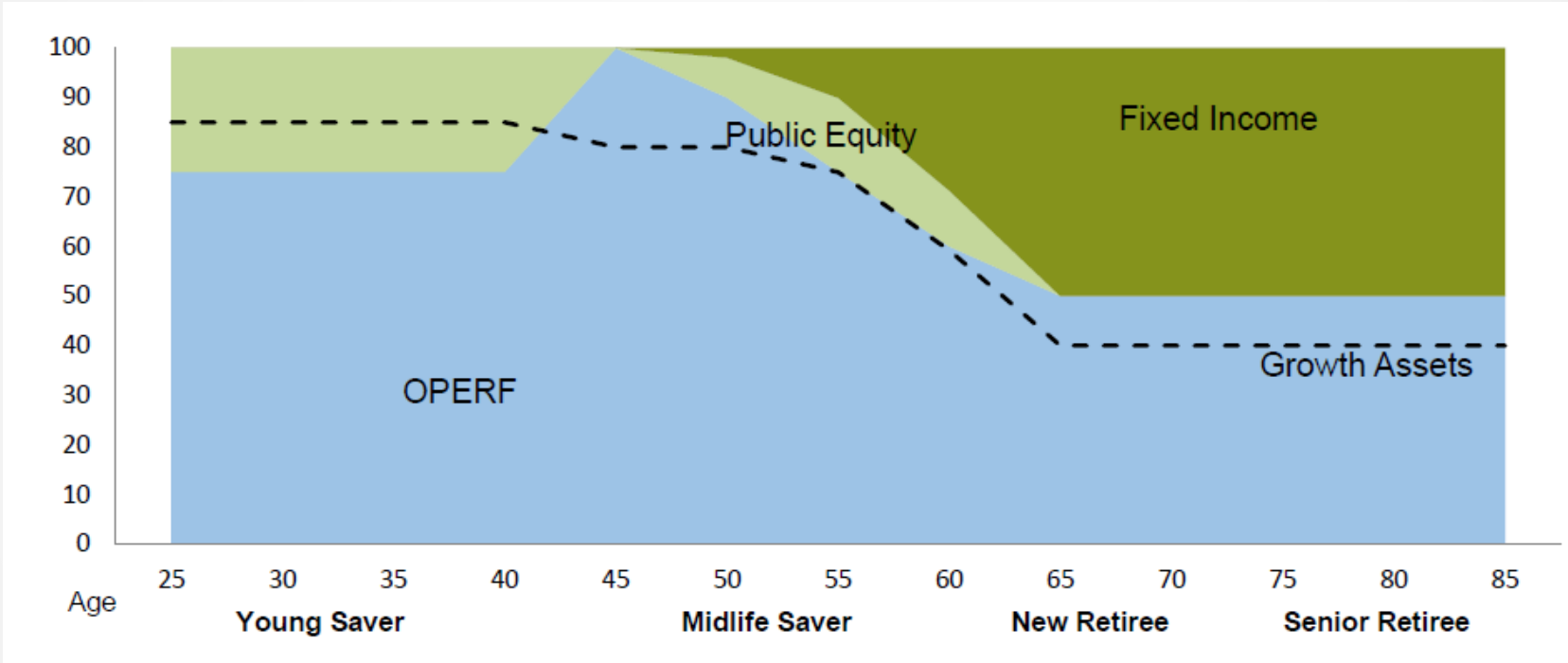
## YOUNGER WORKERS

**MORE GROWTH POTENTIAL:** Workers 45 and younger now have greater growth potential through more exposure to stocks.

The tradeoff for this higher level of investment security and significantly lower volatility is a slightly lower return profile: Analyses show that the median participant over their career would have an IAP balance that is 5% less at retirement, or a fraction of 1% per year.



# Investing smartly: The Oregon custom glidepath



- Conforms to public beneficiary desire to maintain substantial exposure to Oregon Public Employees Retirement Fund (OPERF)



# Investing smartly: Adds low cost index funds

## ALL INVESTORS

- Oregon Public Employees Retirement Fund (from 50% to 100%, depending on age)

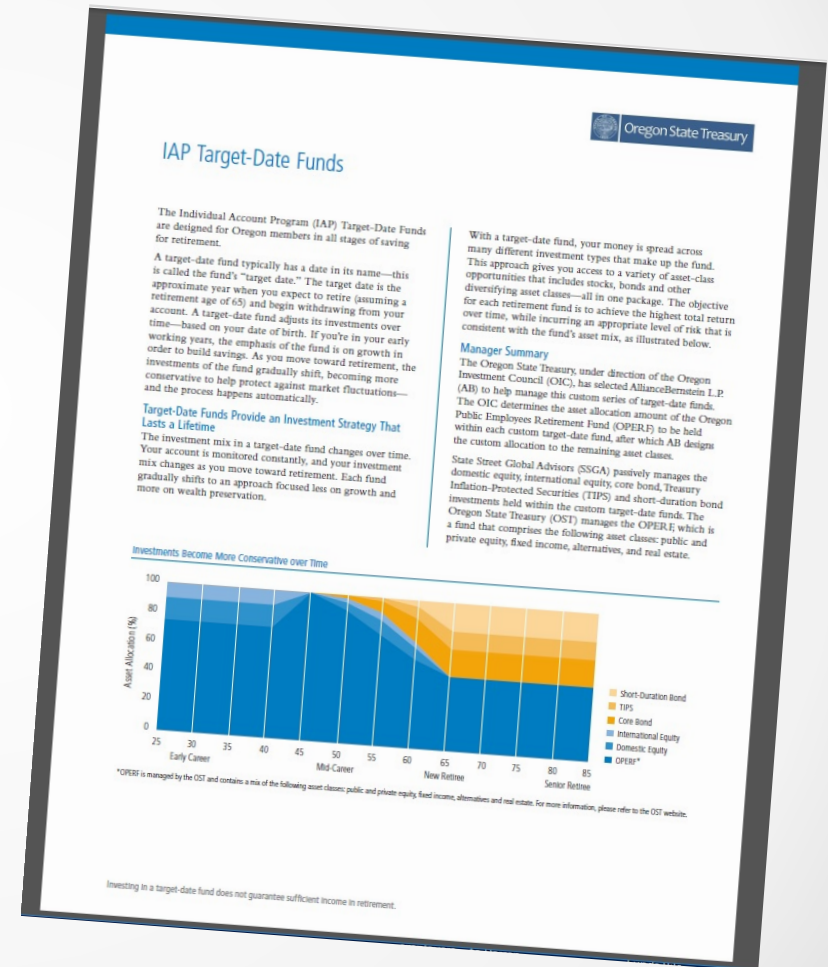
## STATE STREET GLOBAL ADVISORS

- State Street Russell All Cap Index Fund
- State Street Global All Cap Equity Ex U.S. Index Fund
- State Street U.S. Bond Index Fund
- State Street 1-10 Year U.S. Treasury Inflation Protected Securities (TIPS) Index Fund
- State Street U.S. Short-Term Government/Credit Bond Index Fund



# Moving forward: Transparency and choice

- Fund-by-fund data sheets
- More communications to members
- Treasury built IAP structure with the idea it can facilitate choice.
- The Target Date Fund structure would be the default option under any scenario, based on investment best practices and fiduciary standards.







# Oregon State Treasury

Tobias Read, State Treasurer



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