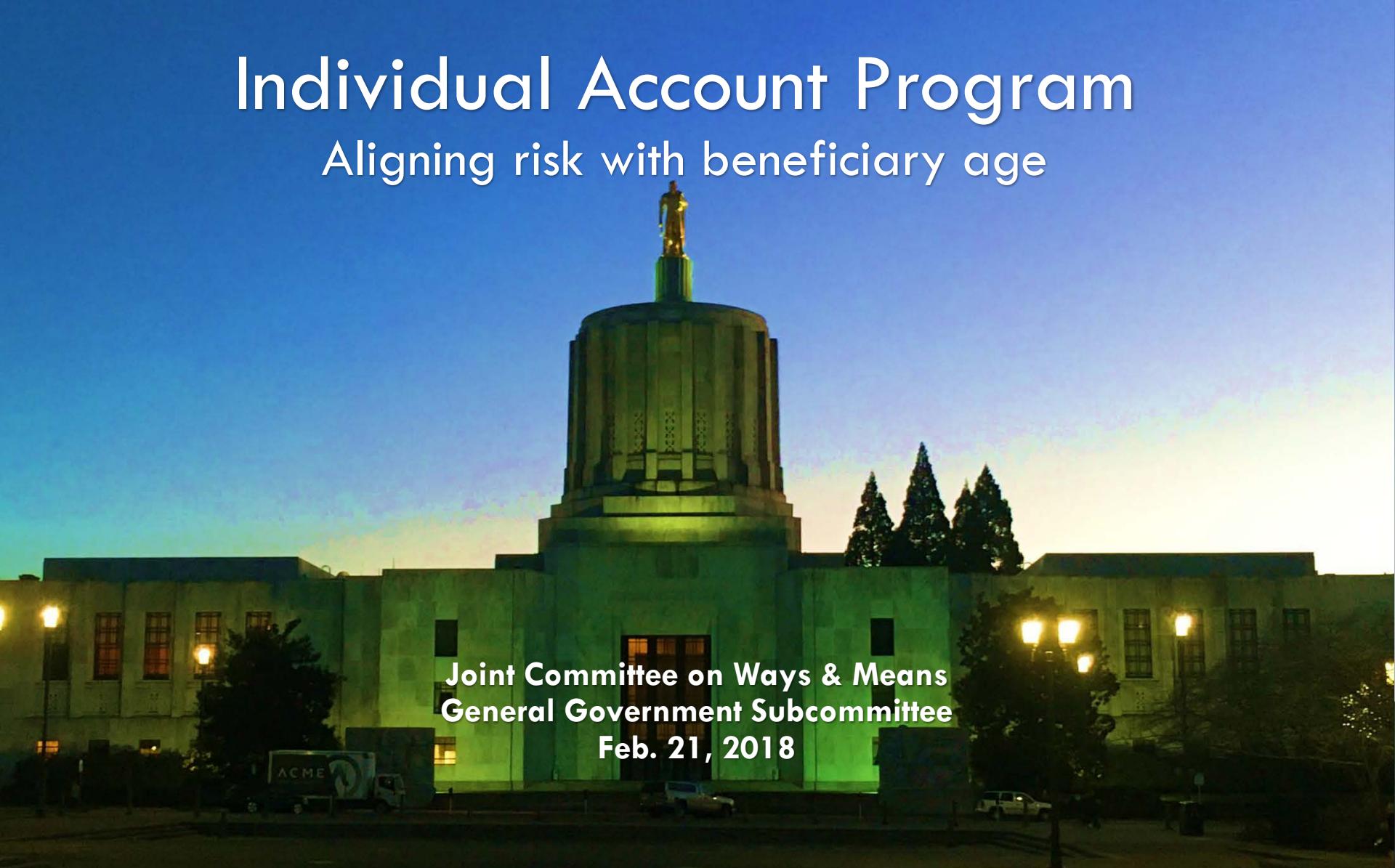


Individual Account Program

Aligning risk with beneficiary age

A photograph of the Oregon State Capitol building in Salem, Oregon, at dusk or night. The building is illuminated from within, with a golden statue on top of the dome. The sky is a gradient of blue and orange. In the foreground, there are some trees and a street lamp.

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

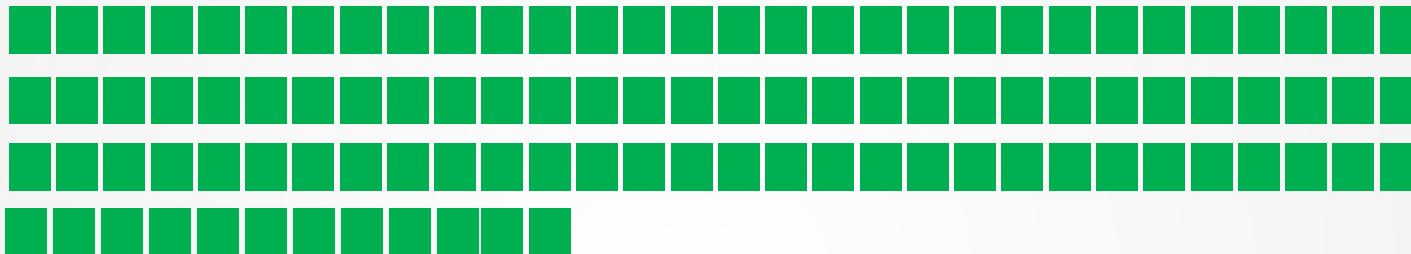
\$2.2 B

Public funds protected
at qualified depositories



Doing Business the Right Way

\$102 BILLION



\$102 B

Assets under
management



Doing Business the Right Way

\$102 BILLION

**\$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.

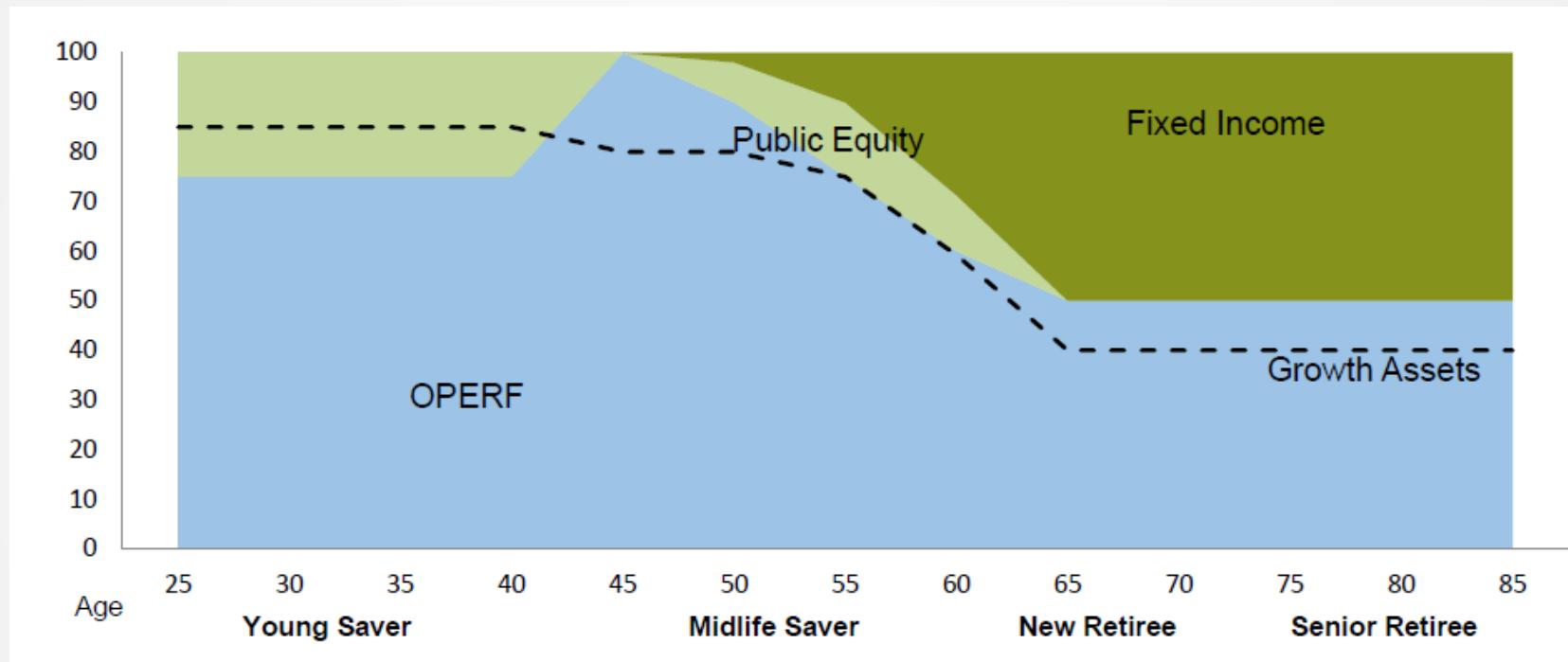
YOUNGER WORKERS

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

IAP Target-Date Funds

The Individual Account Program (IAP) Target-Date Funds are designed for Oregon members in all stages of saving for retirement.

A target-date fund typically has a date in its name—this is called the fund's "target date." The target date is the approximate year when you expect to retire (assuming a retirement age of 65) and begin withdrawing from your account. A target-date fund adjusts its investments over time—based on your date of birth. If you're in your early working years, the emphasis of the fund is on growth in order to build savings. As you move toward retirement, the investments of the fund gradually shift, becoming more conservative to help protect against market fluctuations—and the process happens automatically.

Target-Date Funds Provide an Investment Strategy That Lasts a Lifetime

The investment mix in a target-date fund changes over time. Your account is monitored constantly, and your investment mix changes as you move toward retirement. Each fund gradually shifts to an approach focused less on growth and more on wealth preservation.

Investments Become More Conservative over Time

*OPERF is managed by the OST and contains a mix of the following asset classes: public and private equity, fixed income, alternatives, and real estate. For more information, please refer to the OST website.

Investing in a target-date fund does not guarantee sufficient income in retirement.





Oregon State Treasury

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