



Oregon

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Public Employees Retirement System

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PERS Policy Paper – IAP Member Choice

Background

The 2003 PERS Reform legislation directed that all PERS members who worked since January 1, 2004, have **two components** to their PERS retirement: a **monthly pension benefit** (Tier One, Tier Two, or Oregon Public Service Retirement Plan [OPSRP]); and an **account-based benefit** (the Individual Account Program [IAP]). Members contribute six percent of covered salary into the IAP; their IAP account is then adjusted for investment earnings or losses every year (with no guaranteed minimum investment return).

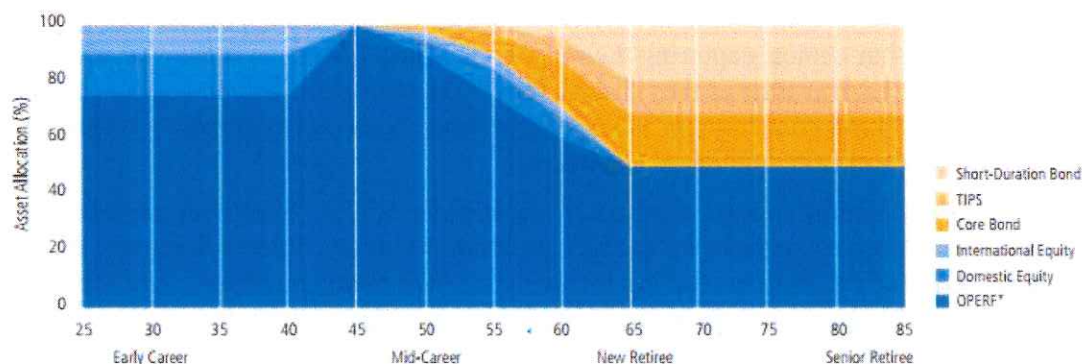
The IAP accounts (as well as all other PERS investments) are under the direction of the Oregon Investment Council (OIC) and managed by the Oregon State Treasury. Since the IAP began, member accounts have been co-invested in the Oregon Public Employees Retirement Fund (OPERF); IAP members have no choice in how their IAP account is invested.

In September 2017, the OIC adopted a new investment policy (effective January 1, 2018) to shift IAP member account investments to a custom Target-Date Fund (TDF) model, where the account's investment allocation is based on the member's age. ORS 238A.050(3) gives the OIC sole discretion to invest the IAP and allows them to do so differently than the rest of OPERF.

Target-Date Fund Model

The shift to a TDF model is intended to reduce investment risk and volatility as members age. In a member's early career, the strategy is to maximize the potential for account growth while the member has time to recover from occasional downturns in the market. As members move toward retirement, the investment strategy gradually evolves to a more conservative allocation that will reduce the probability of large losses from market fluctuations. The following chart shows this investment allocation evolution as members age:

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.

Beginning January 1, 2018, each member's IAP account investment allocation will be changed to a TDF based on the member's birth year (within a five-year range, see the chart below). The result is a series of TDFs that culminate in the Retirement Allocation Fund (for members age 65 or older, or any member who retires and elects to receive their IAP in installment payments).

BIRTH YEAR	TARGET-DATE FUND
In 1993 or after	IAP 2060 Target-Date Fund
Between 1988 and 1992	IAP 2065 Target-Date Fund
Between 1983 and 1987	IAP 2050 Target-Date Fund
Between 1978 and 1982	IAP 2045 Target-Date Fund
Between 1973 and 1977	IAP 2040 Target-Date Fund
Between 1968 and 1972	IAP 2035 Target-Date Fund
Between 1963 and 1967	IAP 2030 Target-Date Fund
Between 1958 and 1962	IAP 2025 Target-Date Fund
Between 1953 and 1957	IAP 2020 Target-Date Fund
In 1952 or before	Retirement Allocation Fund

Even under this new TDF investment policy, earnings will only be credited annually (unless the member retires or withdraws their IAP during the calendar year). For calendar year 2018, the PERS Board will need to determine an earnings crediting rate for each TDF; members will begin to receive their annual statements in spring 2019 and, for the first time, receive earnings based on their age, which may be different than the crediting rate for younger or older co-workers.

During the 2018 calendar year, if a member retires, withdraws, or dies, an IAP payment will be based on the member's total balance at the time PERS processes the payment. At retirement, members will still have the option to roll over their IAP balance into a qualified plan or receive payments over various time periods.

IAP Member Choice: Policy Considerations

Though members have never had a choice in how their IAP account was invested, the concept of “member choice” is to allow members to exercise some direction over their IAP account, directing that their account be invested in a TDF other than the one assigned by birth year or even choose to opt-out of TDFs entirely and have their accounts invested solely in OPERF.¹ The following policy issues arise from considering whether to allow IAP member choice:

1. Earnings Crediting and Financial Reporting – The change to a TDF investment policy has required PERS to develop a new IAP administration model: instead of a single earnings rate for IAP accounts, PERS must now derive earnings rates across 10 TDFs. A member choice model would add the complexity of moving accounts from one TDF to another at designated intervals (preferably, only on calendar years) and aligning investment returns to shifting balances.

2. Member Education and Communication – Giving members an investment choice will require informing them about that choice, capturing their elections if they choose to make one, and then tracking their preferences over time as they choose (or not) to shift their investment mix further. This effort will require basic education on TDFs and, perhaps, licensed investment advisors if members seek direction on their individual choices.

3. Technology – PERS currently uses a third-party administrator (TPA) to provide payment processing and recordkeeping services for the IAP program. Member choice will require PERS to re-negotiate with the TPA, perhaps folding in assistance with member communications and payment processing, to implement a member choice option in a short timeframe.

4. Other IAP Changes – During the 2017 legislative session, Senate Bill 1068 proposed redirecting a portion of the IAP contributions to a pension-funding account. That program change, if approved in the future, may affect members' investment choices and, perhaps, the OIC's investment policy as a whole.

¹ Any investment choices beyond these elections could well involve complications that would require a complete shift in how the IAP is invested and administered.