

Analysis

Public Employees Retirement System

2020 Preliminary Earnings Crediting Statutory Report

Analyst: John Borden

Request: Acknowledge receipt of a report on 2020 preliminary earnings crediting.

Analysis: ORS 238.670(5) requires the Public Employees Retirement System (PERS) Board to submit a report to the Legislature on the Board's preliminary plan to credit calendar year earnings of the Oregon Public Employees Retirement Fund (OPERF) to member and employer accounts and other reserves. Under the statute, the Board must provide the report at least 30 days before the Board makes its final earnings crediting decision. The Board is scheduled to make its final 2020 earnings crediting decision on March 29, 2021. Statute gives the PERS Board broad authority to make earnings crediting decisions and, according to the agency, allocations have generally been on a proportional basis for member and employer accounts.

Of note is that the Legislature during the Second Special Session of 2020, enacted HB 4304, which expanded PERS reporting to the Legislature on annual preliminary earnings crediting to include all the agency's funds and adds reporting requirements for investment and administrative expenses.

Preliminary Earnings Crediting

On February 1, 2021, the PERS Board approved preliminary *net* earnings crediting for calendar year 2020 of \$5.8 billion (associated *gross* earnings were \$6.6 billion before investment and administrative expenses). Allocating 2020 net earnings will increase reserves subject to crediting from \$78.7 billion to \$84.5 billion for a 7.36% increase. This is estimated to be \$130 million above the \$5.7 billion in expected gross earnings based on the assumed earnings rate of 7.2%. OPERF Investment Performance of 7.66% exceeded, by 0.56%, the OPERF Assumed Rate of Return of 7.1% that was established by the Oregon Investment Council. Addendum-A show earning history and the assumed rate for the last 24-years.

For perspective, the following table provides statistics for the past nine-years of preliminary earnings crediting reports to the Legislature.

2011-2020 Statistics	Preliminary Earnings Crediting	Preliminary Earnings Return
Average return	\$5,390.6	8.46%
Highest return	\$10,084.1 (2017)	15.89% (2013)
Median return	\$5,209.2	7.28%
Low return	\$83.5 (2018)	0.11% (2018)
Standard Deviation	\$3,498.1	5.61%

Of note is the actual market returns for private equity investments, which comprise over 23.5% of OPERF assets, are reported on a three-month lag as additional time is needed to value these non-public assets and returns. Therefore, the preliminary 2020 earnings crediting rate of return is based on private equity returns through September 30, 2020, rather than December 31, 2020. Private equity returns for the fourth quarter 2020 returns will be reflected in the following year as part of 2021 earnings crediting.

Also, this report does not include the following: (a) an estimated \$33.5 million in earnings crediting above the reported amount due to the crediting associated with member account payouts during the year and earnings required to be credited to employer accounts during the year; and (b) by statute, earnings crediting for anything other than the OPERF, which excludes earnings crediting for various retiree health insurance accounts.

Estimated Impact to Unfunded Accrued Liability

The system-wide Unfunded Accrued Liability (UAL) for calendar year 2019 was \$19.1 billion after considering \$5.4 billion in pre-paid employer side accounts. A actuarial estimate of the impact of the 2020 preliminary earnings on the UAL shows that the UAL may decrease to \$19.0 billion, or by \$100 million, and that the funded status of the system remains at 79%.

Employer Reserve Accounts and Oregon Public Service Retirement Program

The preliminary earnings crediting of the employer reserve account is \$2.4 billion for a balance of \$35 billion and a return of 7.21%. The preliminary earnings crediting for the employer Oregon Public Service Retirement Program Pension account is \$511.3 million for a balance of \$7.6 billion and a return of 7.26%.

Side Accounts

Employers have the option to make voluntary lump-sum payments to PERS that are in addition to the employer's required contribution. With few exceptions (i.e., payment of transition liability), lump-sum payments are deposited into "side accounts," and are used to offset a portion of the contributing employer's future PERS contribution rate, according to an amortization schedule.

The preliminary earnings crediting of various lump-sum employer contributions, or "side accounts," is \$334.2 million for a balance of \$5.1 billion and a return of 6.99%.

Retiree Benefits

Upon an individual's retirement, funds are transferred into a Benefits-in-Force Reserve account, which is used to fund retiree benefit payments. The preliminary earnings crediting for this account is \$1.4 billion for a balance of \$20.7 billion and a return of 7.21%.

Member Accounts

The preliminary earnings crediting for Tier One member regular accounts is \$214.8 million for a balance of \$3.2 billion. Earnings crediting for this account, by statute, was at the 2020 assumed earnings rate of 7.2%. The preliminary earnings crediting for Tier Two regular member accounts was \$70.7 million for a balance of \$1.1 billion and a return of 7.21%. Judge Member Accounts were credited with the assumed earnings rate of 7.2%. Member variable accounts, which are invested in equities, earned 11.71% or 4.51% above the 7.2% assumed earnings rate.

Tier One Rate Guarantee Reserve

The Tier One Rate Guarantee Reserve makes up any shortfall between the assumed earnings rate and investment returns for Tier One regular accounts. Since Tier One regular account earnings were above the assumed earnings rate of 7.2%, \$36.1 million was transferred into the Tier One Rate Guarantee Reserve for a balance of \$528.1 million.

Individual Account Program

The preliminary crediting for the Individual Account Program (IAP) was \$878 million for a balance of \$11.3 billion and an average return of 8.43%. On September 20, 2017, an administrative decision by the Oregon Investment Council moved the IAP to a target-date, or age-based, fund solution beginning January 2, 2018. IAP members are given no choice in investment option selection; however, beginning on January 1, 2021, IAP members will have an investment choice [per HB 4159 (2018) and SB 1049 (2019)]. Under the target-date funds model, IAP accounts are no longer invested exclusively in the OPERF, but are partially invested in a series of funds structured to match the age of the IAP participant; however, beginning in 2020, retired member's funds that are in distribution status will be invested in the Oregon Short-Term Fund. This change in the IAP investment strategy was undertaken to de-risk member's accounts. IAP and OPERF earnings are expected to deviate from one another with IAP earnings possibly lagging OPERF earnings over time. Such a divergence in returns did not materialize for calendar year 2020. Instead, 2020 IAP returns outperformed OPERF earnings by 1.07%. Of interest is the fact that the IAPs less risky portfolio of target-date funds can achieve a rate of return superior to the OPERF and at presumably much less cost.

Contingency Reserve

When earnings on OPERF equal or exceed the assumed earnings rate, the PERS Board may credit up to 7.2% of earnings to the Contingency Reserve. Statutorily, contingency reserves are limited to pay for: (a) a deficit in the payment of retirement benefits; (b) employer insolvency; and (c) legal expenses. The overfunding of the Contingency Reserve had 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. In 2017, the Legislature enacted SB 1067 which statutorily limited the maximum balance of the Contingency Reserve to \$50 million resulting in the deployment of \$533.7 million in reserves to various accounts thereby reducing the UAL. The PERS Board made no crediting to this reserve account as the balance was at \$50 million.

Investment Expenses

The Oregon Investment Council (OIC) is a policymaking body that sets investment policy, asset allocation targets, benchmark return targets, and makes portfolio decisions on investment purchases and sales. The OIC receives advice from outside investment and management consultants, but relies primarily upon the statutory Chief Investment Officer (i.e., State Treasurer) and the State Treasury Investment Program for staffing, including for investment analysis and recommendations.

OIC is responsible for reviewing investment expenses as part of the investment selection process. Investment expenses are incurred for: (a) investment manager fees; (b) commissions and other fees; (c) investment consultants; and (d) State Treasury expenses. The preliminary earnings crediting for calendar year 2019 are the net of expenses and, as such, are not subject to legislative budgetary control (i.e., expenditure limitation). These expenses totaled \$712.3 million for Calendar Year 2020. On a fiscal year basis, investment expenses decreased by \$65.7 million between Fiscal Year 2018

(\$911.8 million) and 2019 (\$846.1 million)(see Addendum-B). While management fees increased by \$22 million over the prior year, commissions and other fees declined by \$85.6 million. Assets under management also declined by \$2 billion during this period.

Retirement System Administrative Expenses

Administrative expenses are \$86.1 million for PERS agency operational expenses and include \$2.5 million for private vendor costs to administer the IAP and \$2.4 million of OST Fees. Expenses are funded with earnings when they are sufficient (ORS 238.601(1)). Agency expenses increased significantly due to the estimated \$40 million in additional administrative expenses the agency projects will be spent on the implementation of SB 1049 (2019).

Earnings from the Variable Account were sufficient to pay for the associated administrative expense. Of note, however, is that if earnings are insufficient to pay for administrative expenses, then those expenses are to come from OPERF earnings (OAR 459-007-0005). Such costs are not recouped in future years when Variable Account earnings exceed expenses.

Future Employer Contribution Rates

Adopted employer contribution rates have been published by the PERS Board for the 2019-21 biennium and are based on 2018 and 2019 actual earnings crediting. Earning crediting for calendar year 2020 and 2021 will impact the 2023-25 biennium employer contribution rates.

Legislative Fiscal Office Recommendation: Acknowledge receipt of the report.

Addendum-A

The following addendum summarizes reported calendar year PERS account earnings history from 1997 to 2020.

PERS Investment Earnings History (1997-2020)							
Years	Calendar Year	OPERF	Assumed Rate	Tier 1	Tier 2	Variable	IAP
1	1997	20.42%	8.00%	18.70%	20.42%	28.87%	--
2	1998	15.43%	8.00%	14.10%	13.63%	21.45%	--
3	1999	24.89%	8.00%	11.33%	21.97%	28.83%	--
4	2000	0.63%	8.00%	8.00%	0.54%	-3.24%	--
5	2001	-7.17%	8.00%	8.00%	-6.66%	-11.19%	--
6	2002	-8.93%	8.00%	8.00%	-8.93%	-21.51%	--
7	2003	23.79%	8.00%	8.00%	22.00%	34.68%	--
8	2004	13.80%	8.00%	8.00%	13.27%	13.00%	12.77%
9	2005	13.04%	8.00%	8.00%	18.31%	8.29%	12.80%
10	2006	15.57%	8.00%	8.00%	15.45%	15.61%	14.98%
11	2007	10.22%	8.00%	7.97%	9.47%	1.75%	9.46%
12	2008	-27.18%	8.00%	8.00%	-27.18%	-43.71%	-26.75%
13	2009	19.19%	8.00%	8.00%	19.12%	35.57%	18.47%
14	2010	12.44%	8.00%	8.00%	12.44%	15.17%	12.13%
15	2011	2.21%	8.00%	8.00%	2.21%	-7.80%	2.15%
16	2012	14.29%	8.00%	8.00%	14.68%	18.43%	14.09%
17	2013	15.76%	8.00%	8.00%	15.62%	25.74%	15.59%
18	2014	7.29%	7.75%	7.75%	7.24%	4.29%	7.05%
19	2015	2.21%	7.75%	7.75%	1.87%	-1.61%	1.85%
20	2016	7.10%	7.50%	7.50%	7.12%	8.77%	7.14%
21	2017	15.15%	7.50%	7.50%	15.12%	26.45%	14.45%
22	2018	0.11%	7.20%	7.20%	0.20%	-10.03%	-0.72%
23	2019	13.33%	7.20%	7.20%	13.29%	29.04%	13.20%
24	2020	7.66%	7.20%	7.20%	7.22%	11.71%	8.43%

24-year	Average	8.80%	7.84%	8.68%	8.68%	9.52%	--
20-year	Average	7.49%	7.81%	7.80%	7.59%	7.63%	--
15-year	Average	7.69%	7.74%	7.74%	7.59%	8.63%	7.43%
10-year	Average	8.51%	7.61%	7.61%	8.46%	10.50%	8.32%
5-year	Average	8.67%	7.32%	7.32%	8.59%	13.19%	8.50%
3-year	Average	7.03%	7.20%	7.20%	6.90%	10.24%	6.97%

Addendum-B

The following addendum summarizes reported fiscal year Investment Expenses from 2015 to 2019.

Public Employees Retirement System - Investment Expenses					
Source: PERS CAFR					
Fiscal Year	2019	2018	2017	2016	2015
Assets Under Management					
Debt Securities Managers	\$ 15,213,720,452	\$ 16,277,259,333	\$ 14,968,539,870	\$ 14,768,509,332	\$ 15,709,553,788
Public Equity Managers	\$ 26,478,003,098	\$ 29,403,270,522	\$ 30,225,870,153	\$ 27,063,910,456	\$ 30,273,207,903
Real Estate Managers	\$ 8,731,171,187	\$ 8,966,132,571	\$ 8,718,684,190	\$ 8,585,785,027	\$ 7,759,820,864
Private Equity Managers	\$ 18,480,372,903	\$ 17,259,957,679	\$ 15,017,344,594	\$ 13,954,350,332	\$ 14,956,767,833
Alternative Equity Managers	\$ 8,209,320,304	\$ 7,218,603,962	\$ 4,138,735,188	\$ 2,948,607,060	\$ 1,498,022,765
Opportunity Portfolio Managers	\$ 1,652,118,971	\$ 1,717,803,743	\$ 1,587,753,762	\$ 1,364,144,854	\$ 1,073,948,950
Total Assets Under Management	\$ 78,764,706,915	\$ 80,843,027,810	\$ 74,656,927,757	\$ 68,685,307,061	\$ 71,271,322,103
Dollar Change	\$ (2,078,320,895)	\$ 6,186,100,053	\$ 5,971,620,696	\$ (2,586,015,042)	\$ 643,715,765
Percentage Change	-2.6%	8.3%	8.7%	-3.6%	0.9%
Investment Managers' Fees					
Debt Securities Managers	\$ 20,468,792	\$ 19,441,705	\$ 22,230,766	\$ 30,560,952	\$ 32,383,398
Public Equity Managers	\$ 60,429,729	\$ 68,037,878	\$ 72,775,356	\$ 72,478,320	\$ 83,411,330
Real Estate Managers	\$ 66,969,188	\$ 65,533,767	\$ 71,653,741	\$ 72,287,039	\$ 70,650,775
Private Equity Managers	\$ 240,246,208	\$ 221,756,053	\$ 231,579,067	\$ 198,093,147	\$ 197,071,915
Alternative Equity Managers	\$ 88,132,992	\$ 78,341,548	\$ 68,760,668	\$ 40,596,887	\$ 32,651,626
Opportunity Portfolio Managers	\$ 13,997,511	\$ 14,993,277	\$ 16,995,422	\$ 15,141,478	\$ 12,282,104
	\$ 490,244,420	\$ 468,104,228	\$ 483,995,020	\$ 429,157,823	\$ 428,451,148
Other Investment Service Fees					
Securities Lending Commissions		\$ -	\$ -	\$ -	\$ -
Investment Consultants	\$ 8,318,966	\$ 10,496,023	\$ 7,489,482	\$ 5,155,437	\$ 5,485,250
State Treasury					
Oregon Investment Council					
Oregon Savings Growth Plan					
Commissions and Other Fees	\$ 347,530,492	\$ 433,208,401	\$ 212,727,035	\$ 119,410,367	\$ 113,586,869
Total Other Investment Fees	\$ 355,849,458	\$ 443,704,424	\$ 220,216,517	\$ 124,565,804	\$ 119,072,119
Total Investment Fees	\$ 846,093,878	\$ 911,808,652	\$ 704,211,537	\$ 553,723,627	\$ 547,523,267
Dollar Change	\$ (65,714,774)	\$ 207,597,115	\$ 150,487,910	\$ 6,200,360	\$ 42,842,557
Percentage Change	-7.2%	29.5%	27.2%	1.1%	8.5%

Public Employees Retirement System Heath

Request: Report on 2020 preliminary earnings crediting by the Public Employees Retirement System (PERS), as required by ORS 238.670(5).

Recommendation: Acknowledge receipt of the report.

Discussion: Earnings crediting is an annual process through which the PERS Board applies the earnings from investments in the Oregon Public Employees Retirement Fund (OPERF), less expenses and cash flow adjustments, to different accounts within the trusts maintained by PERS. ORS 238.670(5) requires “at least 30 days before crediting any interest and other income received through investment of the Public Employees Retirement Fund to any reserve account in the fund, the [PERS] board shall submit a preliminary proposal for crediting to the appropriate legislative review agency, as defined in ORS 291.371(1), for its review and comment.” The PERS Board is scheduled to approve final earnings crediting on March 29, 2021.

The PERS Board’s earnings crediting decisions are governed by Oregon Revised Statutes and rules adopted by the Board. Earnings credited to the various accounts are not the same thing as the earnings reported by the Oregon State Treasury. The OPERF earned 7.66 percent for calendar year 2020, while most of the accounts held by PERS were preliminarily credited with earnings between 7.20 - 7.26 percent, depending on expenses and cash flows associated with each program. Tier One member regular accounts are credited with PERS’ assumed rate of return, in this case 7.20 percent, in accordance with Oregon law. As the earnings of the OPERF exceeded the assumed rate in 2020, the remainder is credited to a Tier 1 Rate Guarantee Reserve to ensure the stability of the Tier 1 rate.

The main discretionary crediting decision by the Board is related to the Contingency Reserve. The Contingency Reserve is dedicated to preventing a fund deficit due to employer insolvency and to paying for extraordinary legal expenses. Senate Bill 1067 (2017) limits the balance of this account to \$50 million. For 2020, the account balance was at the statutory limit so no earnings were credited to the account.

PERS is also reporting on the earnings for the Individual Account Program (IAP) and for side accounts, which are not subject to the reporting requirements of ORS 238.670(5). The IAP, which is the defined contribution portion of PERS, had preliminary earnings of 8.43 percent as a whole in 2020. The IAP has different earnings compared with the OPERF as a whole because it is partially invested in a series of target date funds that attempt to match a member’s investment risk to their estimated retirement date.

Side accounts are employer prepayments of their liabilities held in the PERS trusts and invested in the OPERF. Side account earnings are credited to the liabilities of the employers who made the contributions. PERS reported that side accounts earned various rates during 2020, depending on the date the contributions were made. Side account earnings are credited to the liabilities of the employers who made the contributions and are not a general resource available for funding the system overall.



Oregon

Kate Brown, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

February 1, 2021

The Honorable Senator Betsy Johnson, Co-Chair
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair
The Honorable Representative Dan Rayfield, Co-Chair
Joint Committee on Ways and Means
900 Court St 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 2020 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 March 29, 2021 PERS Board meeting.

Agency Action

On February 1, 2021, the PERS Board preliminarily approved the allocation of approximately \$5.8 billion in OPERF Regular Account 2020 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 7.21% to the Benefits in Force Reserve, 7.21% to Employer Reserves, 7.21% to Tier Two member regular accounts, 8.43% to Individual Account Program accounts as a whole, and 7.26% to the OPSRP Pension Reserve. The Contingency Reserve is \$50 million, and the Board may not allocate earnings to the reserve until it is less than \$50 million.

The Board also preliminarily approved crediting earnings at the 2020 assumed rate of 7.20% to Tier One member regular accounts, as required by ORS 238.255.

Action Requested

PERS requests the Committee acknowledge receipt of the report.

Legislation Affected

No legislation is affected by this request.

Sincerely,

Kevin Olineck
Director

Attachment: PERS Board Report Item C.4, February 1, 2021



Oregon

Kate Brown, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

February 1, 2021

TO: Members of the PERS Board
FROM: Richard Horsford, Chief Financial Officer
Amanda Marble, Financial Reporting Manager
SUBJECT: 2020 Preliminary Earnings Crediting and Reserving

OVERVIEW

- Action: Allocate 2020 preliminary earnings crediting.
- Reason: ORS 238.670(5) requires PERS to submit a preliminary proposal to the appropriate legislative committee at least 30 days before making a final decision on earnings crediting.
- Subject: Crediting earnings for calendar year 2020 to the PERS Fund's accounts and reserves.

The PERS Board is charged with crediting the earnings from the PERS Fund each calendar year. Some of those allocations are directed by statute or rule; the balance is at the PERS Board's discretion.

2020 PRELIMINARY ALLOCATIONS

The PERS Board's Annual Earnings Crediting rule (see OAR 459-007-0005) directs the crediting to Judge and Tier Two member regular accounts, as well as the OPSRP Pension Program, Benefits-in-Force, and Employer reserves. Staff recommends the following allocations be adopted preliminarily by the PERS Board:

Non-Discretionary Allocations

1. Tier One Member Regular Accounts Reserve and Judge Member Accounts

Credit Tier One member regular accounts and Judge member accounts with the assumed earnings rate (7.20%) in effect during 2020.

Tier One Rate Guarantee Reserve: This 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. Because earnings on Tier One member regular accounts for 2020 exceed the assumed rate, those excess earnings will be credited to Tier One Rate Guarantee Reserve, resulting in a reserve balance of \$528.1 million.

2. Tier Two Member Regular Accounts

Credit Tier Two member regular accounts with a proportional share of available PERS Fund Regular Account earnings, which will result in a preliminary rate of 7.21%.

3. Benefits-in-Force and Employer Reserves

Credit the Benefits-in-Force and Employer Reserves evenly with the remaining available PERS Fund Regular Account earnings, which will result in a preliminary rate of 7.21%.

4. OPSRP Pension Plan Member Accounts

OPSRP member accounts usually are credited with a proportional share of available PERS Fund Regular Account earnings, which will result in a preliminary rate of 7.26%.

Oregon Public Employees Retirement System Calendar Year 2020 Preliminary 2020 Crediting and Reserving (All dollar amounts in millions)								
	Reserves Before Crediting	Gross Investment Income (a)	Investment Expense (b)	Administrative Expenses (c)	Other Adjustments ² (d)	Net 2020 Crediting (a+b+c+d)	Reserves After Crediting	2020 Rates
Tier One Member Regular Accounts	2,983.5	290.6	(33.7)	(3.9)	(38.2)	214.8	3,198.3	7.20%
Tier One Rate Guarantee Reserve	492.0	-	-	-	36.1	36.1	528.1	N/A
Tier Two Member Regular Accounts	979.6	81.9	(9.5)	(1.1)	(0.6)	70.7	1,050.3	7.21%
Benefits In Force Reserve	19,288.6	1,612.6	(186.8)	(21.4)	(12.0)	1,392.4	20,681.0	7.21%
Employer Reserves	32,653.7	2,729.9	(316.3)	(36.3)	(20.3)	2,357.0	35,010.7	7.21%
OPSRP Pension	7,039.1	610.6	(61.6)	(9.3)	(28.4)	511.3	7,550.4	7.26%
IAP Accounts, as a whole ¹	10,409.8	948.4	(74.1)	(13.9)	17.6	878.0	11,287.8	8.43%
UAL Lump-Sum Pmt. Side Accounts ¹	4,782.1	364.7	(30.3)	(0.2)	-	334.2	5,116.3	Various ³
Contingency Reserve	50.0	-	-	-	-	-	50.0	N/A
Total	\$78,678.4	\$6,638.7	(\$712.3)	(\$86.1)	(\$45.8)	\$5,794.5	\$84,472.9	

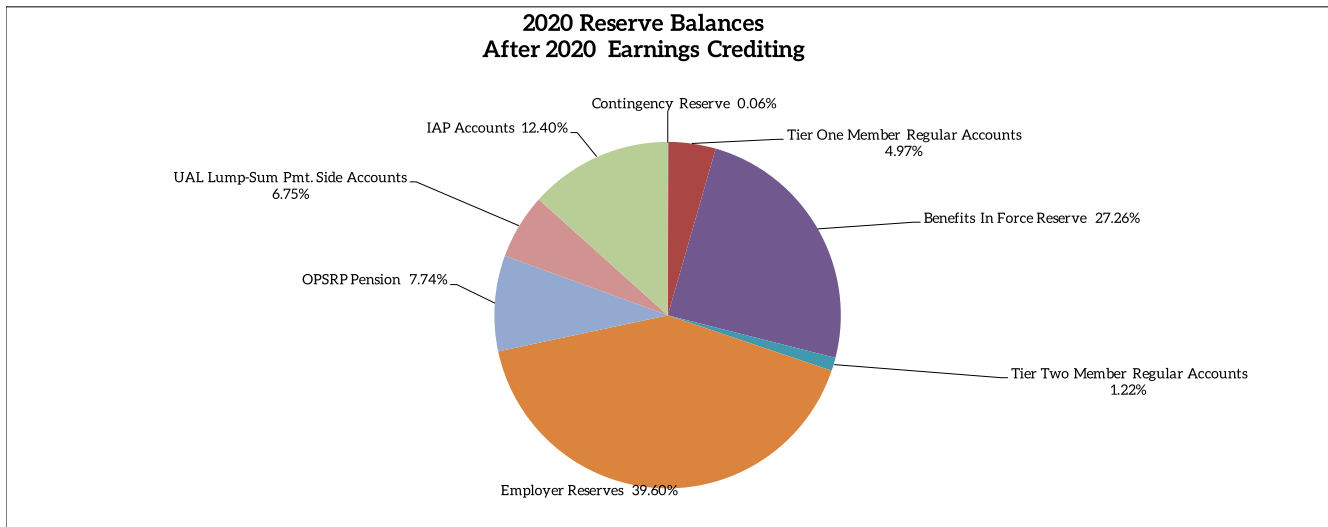
¹ Informational only. Not affected by Board reserving or crediting decisions.

IAP accounts receiving installments have already received 2020 earnings.

² Primarily due to One Rate Guarantee Reserve transfer of the Tier One member regular account excess earnings, defined benefit commingled earnings transfer, and the earnings credited to mid-year retirements.

³ The average of the various final earnings rates is 6.98%

Note: The actual market returns for private equity investments are reported on a three-month lag as additional time is needed to value these non-public assets and returns. Private equity returns for the fourth quarter will be reflected in the following year earnings crediting.



*Informational only. Not affected by Board reserving or crediting decisions.

IAP accounts receiving installments have already received 2020 earnings.

EARNINGS ALLOCATIONS DIRECTED BY STATUTE OR RULE

The following reserves and accounts are allocated earnings by applicable statute or rule. In compliance with these restrictions, the preliminary earnings allocation reflects the following:

- 5. Individual Account Program (IAP):** These member accounts are credited with actual earnings or losses of the PERS Fund Regular Account as required by ORS 238A.350 (1). The overall preliminary IAP earnings for 2020 are 8.43% after deducting IAP expenses. The table below illustrates the IAP earnings by tranche.

Oregon Public Employees Retirement System				
Preliminary IAP TDF Earnings				
(All dollar amounts in thousands)				
TDF Fund	Reserves Before Crediting	2020 Crediting	Reserves After Crediting	2020 Rates
RAF Fund	\$ 922,053.6	\$ 85,256.1	\$ 1,007,309.7	9.24%
2025 Fund	1,442,388.4	128,037.5	1,570,425.9	8.87%
2030 Fund	1,824,914.2	169,667.5	1,994,581.7	9.29%
2035 Fund	2,004,615.2	164,135.9	2,168,751.1	8.18%
2040 Fund	1,679,994.2	124,574.5	1,804,568.7	7.41%
2045 Fund	1,233,557.8	114,793.9	1,348,351.7	9.30%
2050 Fund	641,907.0	62,657.3	704,564.3	9.76%
2055 Fund	246,439.1	21,815.6	268,254.7	8.85%
2060 Fund	55,984.3	4,181.0	60,165.3	7.46%
2065 Fund	2,898.4	182.9	3,081.3	6.31%
Total	\$10,054,752.2	\$875,302.2	\$10,930,054.4	

In accordance with Senate Bill 1049 (2019), effective July 1, 2020 all currently employed Tier One/Tier Two and OPSRP members earning \$2,500/month or more, have a portion of their 6 percent monthly IAP contributions redirected to an “Employee Pension Stability Account.” The Employee Pension Stability Account (EPSA) is used to pay for part of the member’s future pension benefit.

In accordance with PERS Board’s Annual Earnings Crediting rule (see OAR 459-007-0005), for earnings crediting purposes, Tier One/Tier Two member EPSA accounts will be credited with the same rate as Tier Two Regular Member accounts, which will result in a preliminary rate of 7.21%.

In accordance with PERS Board’s Annual Earnings Crediting rule (see OAR 459-007-0005), for earnings crediting purposes, OPSRP member EPSA accounts will be credited with the same rate as OPSRP Pension Member Accounts, which will result in a preliminary rate of 7.26%.

- 6. Employer Lump Sum Payment Accounts:** These accounts are credited with actual earnings or losses of the PERS Fund Regular Account less administrative expenses, as authorized by ORS 238.225. For 2020, the average preliminary crediting rate for these accounts is 6.98%.

7. Health Insurance Accounts: These accounts are created as part of the PERS Fund and directed by statute to be credited with actual earnings or losses, less the expense related to the administration of the programs (ORS 238.410(7); 238.415(4); 238.420(4)). For 2020, the preliminary crediting rate for these accounts are 7.47% for RHIA, 7.13% for RHIPA, and 0.90% for SRHIA (invested in the Treasury Short-Term Fund).

Oregon Public Employees Retirement System Health Insurance Accounts Final Rates	
Health Insurance Fund	2020
RHIA	7.47%
RHIPA	7.13%
SRHIA *	0.90%

* Invested in the Treasury Short-Term Fund

8. Variable Annuity Account: This account is credited with earnings and losses on its distinct asset allocation of the PERS Fund. The Variable Annuity Account is only invested in equities and therefore its earnings are discrete from those of the more diversified PERS Fund Regular Account. For 2020, the preliminary Variable Annuity Account earnings is 11.71%.

Administrative Expenses: PERS administrative costs are funded by earnings when they are sufficient, as they were in 2020 (ORS 238.610(1)). As directed by House Bill 4155 (2014 Regular Session), the administrative costs to comply with Governmental Accounting Standards Board (GASB) 68 and 75 reporting standards were \$32,938 and will be recovered from earnings on employer's contributions.

CONTINGENCY RESERVE ALLOCATION

ORS 238.670 (1) to limit the board's crediting of funds to the Contingency Reserve; specifically, "...the board may not credit further amounts to the reserve account if the amounts in the reserve account exceed \$50 million."

As the current balance of the Contingency Reserve is \$50 million, with \$2.5 million earmarked for resolving employer insolvencies. The staff recommends no additional allocation at this time.

BOARD OPTIONS

The PERS Board may:

1. Pass a motion to "adopt the preliminary crediting of earnings as presented for calendar year 2020, subject to final adoption at the March 29, 2021 PERS Board meeting."
2. Pass a motion preliminarily allocating 2020 earnings in an alternative proportion, subject to final adoption at the March 29, 2021 PERS Board meeting.

STAFF RECOMMENDATION

Staff recommends the board choose Option #1.

NEXT STEPS

Preliminary Earnings Crediting: Once the board makes its preliminary allocation, staff will prepare and present the required report to the Joint Legislative Committee on Ways and Means. Any comments

received from the committee will be presented to the PERS Board prior to the final crediting decision at its meeting on March 29, 2021.

This preliminary action and the resulting report to the Legislature do not prohibit the PERS Board from changing its final decision if new information becomes available. If the board makes a significant change from its preliminary decision, staff will report the PERS Board's actions to the Legislature.

C.4. Attachment 1 – *ORS 238.670 – Reserve Accounts in Fund*

C.4. Attachment 2 – *OAR 459-007-0005 – Annual Earnings Crediting Rule*