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PUBLIC EMPLOYEES RETIREMENT SYSTEM

# Hazardous Positions Member Classification

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# Agenda

- Administrative Implications
  - Timing and Costs of Implementation
- Appendix
  - Actuarial Impact – New Classification
  - Current System-Wide Actuarial Status

# Administrative Implications

The creation of a brand-new Hazardous Positions membership classification within PERS would be a large administrative lift both in terms of economic resources and manpower.

- Extensive new programming for the PERS jClarety system to account for the "Hazardous Position" service just like we currently have for P&F service and general service.
- The inevitable future expansion of the membership population within this new classification would require additional administrative resources.
- For the purposes of determining employer pension contributions and disability benefit funding, the employers and the PERS board are required to treat this population of members separately (with distinct and separate employer reporting changes).
- Overhaul of existing PERS forms and creation of new forms to account for this new classification (intake and review team)
- Retirement education team would need to update its print material and presentations to account for this new membership class.
- Employer Reporting and Calculations team would also require additional procedures and training to process this new classification.

# Order of Magnitude Costs and Timing

The creation of a brand-new Hazardous Positions membership classification within PERS would be a significant administrative lift both in terms of economic resources and manpower as noted in the previous slide.

We have revised our estimates for the cost to implement a change of this magnitude, from those presented on September 28th, to be $19 to $22 million ($3m in inflationary costs depending on start date). This estimate has a plus/minus confidence factor of 50%, which is standard project estimation prior to establishing detailed business requirements.

Any bill introduced to this effect would require an operative date of up to twenty-four to thirty months- as this is the time it would take the agency to implement a change of this magnitude.

This cost involves the administrative tasks noted in the previous slide, but, more concretely with the other projects that the agency is undertaking, would involve:

- Approximately 30 FTE (combination of permanent and limited duration across 11 sections)
- $10m in internal staff costs
- $9m in contract resources and services & supplies (not included in FTE number)

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# Hazardous Positions
## Revised Cost Estimate*

| Financial Analysis Summary | | |
|---|---|---|
| **Cost Estimates Summary** | | |
| **Account Title** | **25-27 Biennium** | **27-29 Biennium - Ongoing** |
| **Personnel Services** | | |
| Salaries & OPE | $ 6,514,399.34 | $ - |
| Temporary (Direct Hire) | $ - | $ - |
| Overtime | $ - | $ - |
| Re-Class | $ - | |
| Internal Staff Workload | $ 3,611,059.20 | |
| | | |
| Subtotal | $ 10,125,459 | $ - |
| **Services & Supplies** | | |
| Training & Office Expense | $ 197,000.00 | $ - |
| Expendable Property | $ - | $ - |
| Professional Services | $ 7,600,000.00 | $ - |
| Other Services & Supplies | $ 800,000.00 | $ - |
| | | |
| | | |
| Subtotal | $ 8,597,000.00 | $ - |
| **Capital Outlay** | | |
| Capital Outlay | $ - | $ - |
| | | |
| | | |
| Subtotal | $ - | $ - |
| **Total Cost Estimates** | **$ 18,722,458.54** | **$ -** |
| | | |
| Permanent Positions | - | - |
| Limited Duration Positions | 30 | - |
| Total | **30** | **-** |
| | | |
| Permanent FTE Request | - | - |
| Limited Duration FTE Request | 30.00 | - |
| Total | **30.00** | **-** |
| | | |

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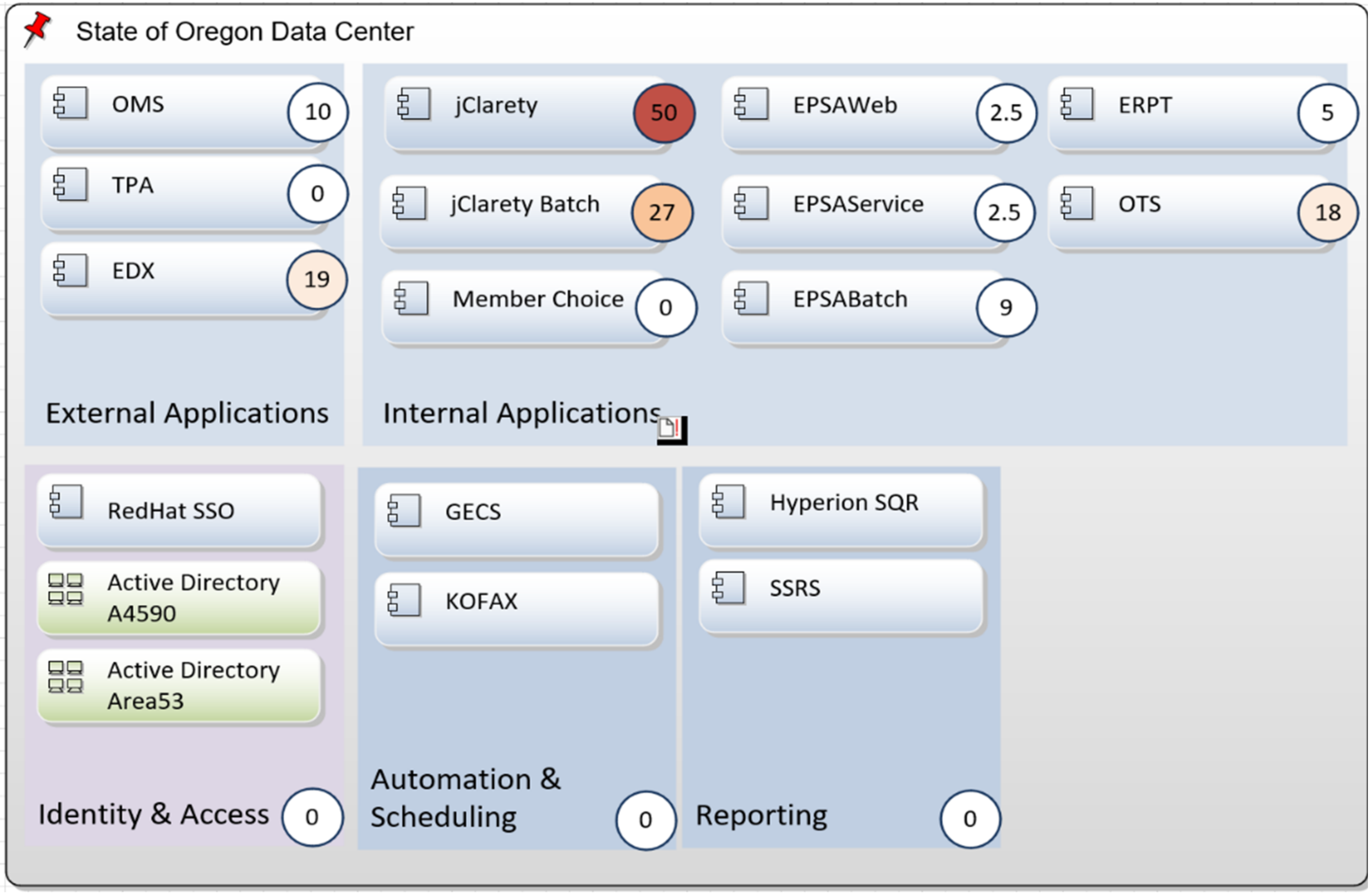
* +/- 50% with inflation not taken into account based on start date

# Hazardous Positions

## Scope of System Changes

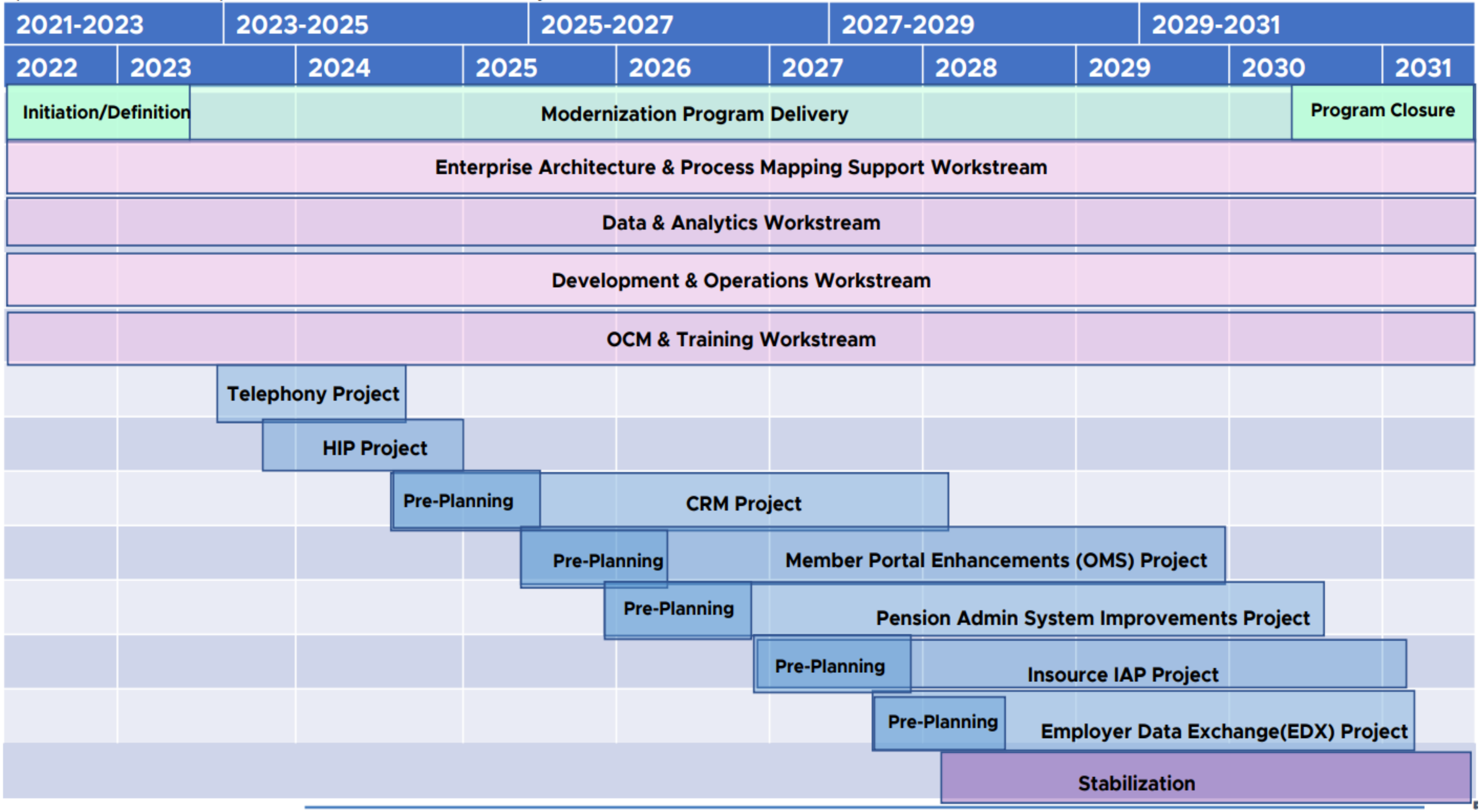


# Other Considerations

- PERS received $9.6 million this biennium to begin initial stages of overall system modernization (which was delayed for six years due to SB 1049). Our modernization efforts would make legislative implementation easier and more cost-effective, particularly if applied to large-scale projects such as what is contemplated with adding a hazardous position class.
- If trying to do this and Modernization concurrently, we would not have the expertise/resources to execute both successfully and would be building throwaway functionality.
- We could tie this into modernization efforts to leverage the efforts in that program beginning in 2029 based on our initial modernization program roadmap.
- An implementation date earlier than 2029 will, in all likelihood, have significant implications on PERS' capabilities to deliver services to our 405,000 members and 900 employers and our $8.5 billion annual cashflow of benefit payments and contributions.

# Hazardous Positions Meeting
## Current Modernization Roadmap

Note that this timeline is an estimation and should not be considered a project schedule. A project schedule is developed after projects and resources are approved and prioritized in PERS Enterprise Portfolio and then will be formally baselined.

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# Thank You

# Actuarial Costs
## Option 1 (1.8% Multiplier)

For a prospective-only increase in the multiplier to 1.8% for the Hazardous group in addition to the more favorable normal retirement provisions the estimated contribution rate effect is:

- An increase of about 2.75% to the OPSRP normal cost contribution rate compared to standard OPSRP General Service normal cost rate. The OPSRP General Service normal cost rate determined in the December 31, 2022 actuarial valuation is 10.55% of pay, so this equates to an estimated OPSRP normal cost rate of 13.30% for the Hazardous classification.
- An additional increase of 2.20 % for the initial UAL contribution rate associated with the Hazardous classification (see slide 12 for UAL treatment).

# Actuarial Costs
## Option 2 (Multiplier reduced to 1.50%)

For a prospective-only increase in the multiplier to 1.5% for the Hazardous group in addition to the more favorable normal retirement provisions the estimated contribution rate effect is:

- An increase of about 1.5% to the OPSRP normal cost contribution rate compared to standard OPSRP General Service normal cost rate. The OPSRP General Service normal cost rate determined in the December 31, 2022 actuarial valuation is 10.55% of pay, so this equates to an estimated OPSRP normal cost rate of 12.05% for the Hazardous classification.
- An additional increase of 1.25% for the initial UAL contribution rate associated with the Hazardous classification (see slide 12 for UAL treatment).

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# Actuarial Costs
## Unfunded Actuarial Liability Treatment

Because “hazardous position” members would be able to use prior service in the same position to qualify for the reduced retirement age, this will create an amount of unfunded actuarial liability, as those increased benefits will not have time to be funded within the plan. From an equity perspective, this portion of the unfunded actuarial liability should be charged directly to the affected employers upon enrollment, rather than spread across the entire UAL pool, as that is currently pooled at one rate for every employer under OPSRP.

This UAL Treatment assumes the initial UAL arising at the time of enactment from the “repricing” of the value of benefits for service already performed would be amortized over 16 years (consistent with new OPSRP UAL bases under the current funding policy) and that the UAL rate would be charged to the payroll of OPSRP Hazardous classification members only.

This UAL rate would not be charged on Tier One/Tier Two payroll of the affected employers. It would also not be charged on the payroll of other OPSRP employers. However, all future gains and losses related to this class would be pooled in the OPSRP UAL rate and charged on both Tier One/Tier Two and OPSRP payroll (similar to how current membership is pooled within that rate component currently).

# Current Funded Status and UAL

| System-Total Pension Funded Status ($ billions) | | | |
|---|---|---|---|
| Valuation date: | 12/31/2020 | 12/31/2021 | 12/31/2022 |
| Assumed return: | 6.90% | 6.90% | 6.90% |
| Actuarial liability | $ 95.3 | $ 98.4 | $ 102.9 |
| Assets (excluding side accounts) | 67.3 | 78.4 | 74.9 |
| **UAL (excluding side accounts)** | **$ 28.0** | **$ 20.0** | **$ 28.0** |
| **Funded status (excluding side accounts)** | **71%** | **80%** | **73%** |

Based on the September 2023 returns of 2.65% YTD, this could add $3-4 Billion to the UAL due to investment underperformance relative to the 6.9% assumed rate of return. With this potential increase in the UAL, the funded status would drop to approximately 70%.

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# Projected 2025-27 Total Contributions
## (Member + Employer)

| ($ millions) | Projected 2023-25 Payroll* | (A) Projected 2023-25 Total Contribution | Projected 2025-27 Payroll* | (B) Projected 2025-27 Total Contribution | (B - A) Projected Total Contribution Increase / (Decrease) |
|---|---|---|---|---|---|
| State Agencies | $ 8,360 | **$ 1,820** | $ 9,395 | **$ 2,160** | **$ 340** |
| School Districts | 8,860 | **1,530** | 10,210 | **2,020** | **490** |
| All Others | 9,910 | **2,210** | 11,040 | **2,680** | **470** |
| Total | $27,130 | **$ 5,560** | $30,645 | **$ 6,860** | **$ 1,300** |

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# Projected Split of 2025-27 Total Contributions

| ($ millions) | Estimated 2023-25 Member Redirect Contributions* | Estimated 2025-27 Member Redirect Contributions* | Projected 2023-25 Employer Contribution | Projected 2025-27 Employer Contribution |
|---|---|---|---|---|
| State Agencies | $ 90 | **$ 90** | $1,730 | **$ 2,070** |
| School Districts | 100 | **100** | 1,430 | **1,920** |
| All Others | 110 | **105** | 2,100 | **2,575** |
| Total | $ 300 | **$ 295** | $ 5,260 | **$ 6,565** |

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# Collared Employer Pension Rates – System-Wide

| | 12/31/2021[1] Valuation 2023 – 2025 Final Rates | | | 12/31/2022[1] Valuation 2025 – 2027 Advisory Rates | | |
|---|---|---|---|---|---|---|
| | | Payroll | | | Payroll | |
| | Tier One / Tier Two | OPSRP | Weighted Average[2] | Tier One / Tier Two | OPSRP | Weighted Average[2] |
| **Collared Base Rate** | **30.67%** | **25.23%** | **26.74%** | **32.55%** | **27.02%** | **28.37%** |
| Member Redirect Offset | (2.40%) | (0.65%) | (1.10%) | (2.40%) | (0.65%) | (1.05%) |
| **Collared Base Employer Rate** | **28.27%** | **24.58%** | **25.64%** | **30.15%** | **26.37%** | **27.32%** |
| Side Account (Offset) | (6.64%) | (6.64%) | (6.64%) | (5.38%) | (5.38%) | (5.38%) |
| SLGRP Charge/(Offset) | (0.39%) | (0.39%) | (0.39%) | (0.25%) | (0.25%) | (0.25%) |
| **Collared Net Rate** | **21.24%** | **17.55%** | **18.61%** | **24.52%** | **20.74%** | **21.69%** |
| **Increase** | | | | **3.28%** | **3.19%** | **3.08%** |

1 For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.
2 Weighting based on system-wide payroll levels (Tier One/Tier Two, OPSRP) as of the valuation date

Rates vary by employer, as only some employers have side accounts

Changes in side account offsets are not collared

Based on the September 2023 returns of 2.65% YTD versus the 6.9% assumed rate of return, this could add an additional 1.6 – 1.8% to the rates noted above, due to investment underperformance.

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