

ANALYSIS

Public Employees Retirement System 2023 Preliminary Earnings Crediting

Analyst: John Borden

Request: Acknowledge receipt of a report on 2023 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 2023 earnings crediting decision on April 1, 2024. 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.

During the 2020 second special session, the Legislature enacted HB 4304, which expanded PERS reporting to the Legislature on annual preliminary earnings crediting to include all the agency’s funds and added reporting requirements for investment and administrative expenses.

Preliminary Earnings Crediting

On February 2, 2024, the PERS Board approved preliminary **net** earnings for calendar year 2023 of a \$5.3 billion (associated **gross** earnings were a gain of \$6.4 billion before investment and administrative expenses). Allocating 2023 net earnings will increase reserves subject to crediting from \$91.7 billion to \$97 billion for a 5.75% return. This is estimated to be \$1.1 billion less the \$6.3 billion in expected gross earnings based on the assumed earnings rate of 6.9%. Addendum-A provides earning history and the assumed rate for the last 26-years.

For perspective, the following table provides statistics for the past 13 years of preliminary earnings crediting reports to the Legislature.

2011-2023 Statistics (in billions)	Preliminary Earnings Crediting	Preliminary Earnings Return
Average return	\$5,638.2	8.29%
Highest return	\$16,289.2 (2021)	19.62% (2021)
Median return	\$5,271.7	7.19%
Low return	(2,170.3) (2022)	-2.24% (2022)
Standard Deviation	\$4,784.0	6.56%

Of note is the actual market returns for private equity investments, which comprise over 26% 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 2023 earnings crediting rate of return is based on private equity returns through September 30, 2023, rather than December 31, 2023. Private equity returns for the fourth quarter 2023 returns will be reflected in the following year as part of 2024 earnings crediting.

Also, this report does not include the following: (a) 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 Actuarial Liability (UAL) for calendar year 2022 was \$21.8 billion after taking into consideration \$6.2 billion in pre-paid employer side accounts with a funded status of 78.8%. An actuarial estimate of the impact of the 2023 preliminary earnings and other PERS Board changes on the UAL shows that the UAL may increase to \$22.8 billion, or by \$1 billion, and that the funded status of the system may decrease to 78%. The 2023 actuarial valuation will reflect the actual impact on the system.

Employer Reserve Accounts and Oregon Public Service Retirement Program

The preliminary earnings for the employer reserve account is \$2.4 billion for a balance of \$45.1 billion and a return of 5.53%. The preliminary earnings for the employer Oregon Public Service Retirement Program Pension account is \$671.3 million for a balance of \$12.7 billion and a return of 5.58%.

Employee Pension Stability Accounts

This is the second annual report to include information related to the redirection (starting July 1, 2020) of a portion of employee contributions from an employee's defined contribution plan, the Individual Account Program (IAP), to partially fund prospectively an employee's defined benefit or pension plan ("Employee Pension Stability Account"), if the PERS funded status is less than 90% funded and if an employee's earnings is more than \$3,570 per month for 2023. Redirected funds will lower or offset the employer contribution resulting in employer savings. The redirect for each benefit plan, which began on July 1, 2020, are as follows: (a) Tier One: 2.5% of eligible salary and wages; (b) Tier Two: 2.5% of eligible salary and wages; and (c) Oregon Public Service Retirement Plan (OPSRP): 0.75% of eligible salary and wages.

The preliminary earnings of the Tier 1/Tier2 Employee Pension Stability Account (EPSA) is \$14.5 million for a balance of \$287.1 million and earnings of 5.3% (Tier One and Tier Two EPSA accounts are credited, by administrative rule, with the Tier Two member rate of return). The preliminary earnings for the Oregon Public Service Retirement Program (OPSRP) EPSA is \$13.7 million for a balance of \$257.8 million and earnings of 5.58% (OPSRP EPSA accounts are credited, by administrative rule, the OPSRP rate of return). When combined, the two EPSA accounts have a balance of \$544.9 million, which means that the member redirect is meeting its SB 1049 (2019) objective.

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 of various lump-sum employer contributions, or "side accounts," is \$324.2 million for a balance of \$5.4 billion with earnings averaging 6.37%.

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 for this account is \$831.8 million for a balance of \$15.9 billion and earnings of 5.53%.

Member Accounts

The preliminary earnings crediting for Tier One member regular accounts is \$136.7 million for a balance of \$2.1 billion. Earnings crediting for this account, by statute, was at the current assumed earnings rate of 6.9%. The preliminary earnings for Tier Two regular member accounts was \$54 million for a balance of \$1 billion and earnings of 5.53%. Member variable accounts, which are invested in equities for which a member may choose to participate, earned \$50.7 million or 27.8% leaving a balance of \$236 million.

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 credited at the assumed earnings rate of 6.9%, the Tier One Rate Guarantee Reserve retained \$13.7 million of earnings and has a balance of \$750.2 million.

Individual Account Program

The preliminary earnings for the Individual Account Program (IAP) was \$842.2 million for a balance of \$13.4 billion and an average earnings of 6.72%. 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. Under the target-date funds model, IAP accounts are no longer invested exclusively in the OPERF Regular fund, but are partially invested in a series of funds structured to match risk profiles to the age of the IAP participant. Beginning in 2020, retired members' funds that are in distribution status are invested in the Oregon Short-Term Fund. The Retirement Fund Allocation for IAP was credited \$42.3 million and has a balance of \$500.7 million for a return of 9.24%. The target date funds, which may also include some investment in the OPERF, were credited a combined \$788.8 million and have a combined balance of \$12.4 billion with return varying between a low of 5.92% (2040 Fund) and a high of 8.46% (2050 Fund).

Health Insurance Accounts

Health Insurance Accounts are imbedded within the OPERF and are credited with actual earnings or losses after payment of administrative expenses. The preliminary earnings for these accounts was \$46.5 million for a balance of \$917.2 million, with one account having earnings of 3.2% (State Retiree Health Insurance Fund invested in the Treasury Short-Term Fund (SRHIA)) and two accounts had earnings (Retiree Health Insurance Premium Account (RHIPA): 4.8%; and Retirement Health Insurance Account (RHIA): 5.7%).

Contingency Reserve

When earnings on OPERF equal or exceed the assumed earnings rate, the PERS Board may credit up to 6.9% 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. The reported balance of the Contingency Reserve is \$50 million with no reported changes from the prior calendar year 2022 earnings crediting.

Investment Expenses

The Oregon Investment Council (OIC) is a policymaking body that sets investment policy, including asset allocation targets and benchmark return targets, and provides investment oversight. 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 2022 are the net of expenses and, as such, are not subject to legislative budgetary control (i.e., expenditure limitation). These expenses totaled \$967.7 billion for *calendar year 2023*, based on the PERS report. The most current *fiscal year* investment expense data from the PERS Comprehensive Annual Financial Report for fiscal year 2023 and shows that investment expenses decreased by \$246.1 million between fiscal year 2022 (\$1.4 billion) and 2023 (\$1.2 billion) and that assets under management increased by \$2.9 billion or by 3% during this period with total assets under management for 2023 equaling \$98.8 billion (see Addendum-B).

Retirement System Administrative Expenses

Administrative expenses total \$101 million for PERS agency operational expenses. Expenses are funded with earnings when they are sufficient (i.e., positive) (ORS 238.601(1)). When earnings are insufficient (i.e., negative), administrative expenses are to be paid from employer contributions. Agency expenses have increased significantly due the implementation of SB 1049 (2019) and a recently begun Modernization project. The PERS report reflects \$80.7 million in other non-administrative technical adjustments costs that also reduced gross earnings crediting.

Future Employer Contribution Rates

Employer contribution rates have been adopted and published by the PERS Board for the 2023-25 biennium and are based on 2021 actual earnings crediting. For the 2025-27 biennium, advisory employer contribution rates will be based on 2022 actual earnings crediting, and final adopted rates will be based on 2023 actual earnings. In short, holding all other PERS Board and actuarial variables constant, 2025-27 employer contribution rates may still increase due to the investment returns for 2022. This is even after the impact of the Board's relatively new rate collaring policy, whereby the 2023-25 rates are not allowed to decrease as much as if they had been uncollared.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends that the Joint Committee on Ways and Means acknowledge receipt of the report.

Addendum-A

The following addendum summarizes reported calendar year PERS account earnings history from 1997 to 2023.

PERS Investment Earnings History (1997-2023)							
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%
25	2021	20.05%	6.90%	6.90%	20.22%	18.84%	16.26%
26	2022	-2.24%	6.90%	6.90%	-1.88%	-24.43%	-4.25%
27	2023	5.75%	6.90%	6.90%	5.53%	27.36%	6.72%

25-year	Average	7.96%	7.71%	7.84%	7.93%	8.00%	7.79%
20-year	Average	8.70%	7.73%	8.48%	8.60%	9.27%	7.79%
15-year	Average	9.35%	7.52%	7.52%	9.33%	11.83%	8.84%
10-year	Average	7.64%	7.28%	7.28%	7.59%	9.04%	7.01%
5-year	Average	8.91%	7.02%	7.02%	8.88%	12.50%	8.07%
3-year	Average	7.85%	6.90%	6.90%	7.96%	7.26%	6.24%

Addendum-B

The following addendum summarizes reported fiscal year Investment Expenses from 2018 to 2023.

Public Employees Retirement System - Investment Expenses							
Source: PERS CAFR							
Fiscal Year	2023	2022	2021	2020	2019	2018	
Assets Under Management							
Debt Securities Managers	\$ 19,782,459,269	\$ 19,201,300,293	\$ 16,577,911,142	\$ 15,213,720,452	\$ 16,277,259,333	\$ 14,968,539,870	
Public Equity Managers	\$ 23,026,133,653	\$ 23,715,061,151	\$ 33,064,101,068	\$ 26,478,003,098	\$ 29,403,270,522	\$ 30,225,870,153	
Real Estate Managers	\$ 13,481,577,315	\$ 13,484,899,469	\$ 10,151,288,539	\$ 8,731,171,187	\$ 8,966,132,571	\$ 8,718,684,190	
Private Equity Managers	\$ 26,188,039,823	\$ 24,588,062,306	\$ 25,725,638,086	\$ 18,480,372,903	\$ 17,259,957,679	\$ 15,017,344,594	
Real Assets Managers	\$ 8,980,367,543	\$ 7,493,706,329					
Alternative Equity/Diversifying Strategies Managers	\$ 4,918,880,547	\$ 5,192,616,827	\$ 9,647,953,735	\$ 8,209,320,304	\$ 7,218,603,962	\$ 4,138,735,188	
Opportunity Portfolio Managers	\$ 2,449,303,169	\$ 2,248,492,239	\$ 2,125,974,636	\$ 1,652,118,971	\$ 1,717,803,743	\$ 1,587,753,762	
Total Assets Under Management	\$ 98,826,761,319	\$ 95,924,138,614	\$ 97,292,867,206	\$ 78,764,706,915	\$ 80,843,027,810	\$ 74,656,927,757	
Dollar Change	\$ 2,902,622,705	\$ (1,368,728,592)	\$ 18,528,160,291	\$ (2,078,320,895)	\$ 6,186,100,053	\$ 5,971,620,696	
Percentage Change	3.0%	-1.4%	23.5%	-2.6%	8.3%	8.7%	
Investment Managers' Fees							
Debt Securities Managers	\$ 18,826,985	\$ 17,714,283	\$ 17,557,644	\$ 20,468,792	\$ 19,441,705	\$ 22,230,766	
Public Equity Managers	\$ 50,860,940	\$ 71,004,252	\$ 72,963,272	\$ 60,429,729	\$ 68,037,878	\$ 72,775,356	
Real Estate Managers	\$ 104,370,474	\$ 90,653,217	\$ 74,324,131	\$ 66,969,188	\$ 65,533,767	\$ 71,653,741	
Private Equity Managers	\$ 289,707,631	\$ 274,264,054	\$ 240,298,187	\$ 240,246,208	\$ 221,756,053	\$ 231,579,067	
Real Assets Managers	\$ 104,147,243	\$ 94,747,844					
Alternative Equity Managers	\$ 50,398,037	\$ 25,096,343	\$ 109,486,893	\$ 88,132,992	\$ 78,341,548	\$ 68,760,668	
Opportunity Portfolio Managers	\$ 28,633,134	\$ 25,182,947	\$ 15,802,353	\$ 13,997,511	\$ 14,993,277	\$ 16,995,422	
	\$ 646,944,444	\$ 598,662,940	\$ 530,432,480	\$ 490,244,420	\$ 468,104,228	\$ 483,995,020	
Other Investment Service Fees							
Securities Lending					\$ -	\$ -	
Commissions							
Investment Consultants	\$ 12,762,315	\$ 11,858,566	\$ 8,824,986	\$ 8,318,966	\$ 10,496,023	\$ 7,489,482	
State Treasury							
Oregon Investment Council							
Oregon Savings Growth Plan							
Commissions and Other Fees	\$ 536,598,492	\$ 831,889,374	\$ 460,423,737	\$ 347,530,492	\$ 433,208,401	\$ 212,727,035	
Total Other Investment Fees	\$ 549,360,807	\$ 843,747,940	\$ 469,248,723	\$ 355,849,458	\$ 443,704,424	\$ 220,216,517	
Total Investment Fees	\$ 1,196,305,251	\$ 1,442,410,880	\$ 999,681,203	\$ 846,093,878	\$ 911,808,652	\$ 704,211,537	
Dollar Change	\$ (246,105,629)	\$ 442,729,677	\$ 153,587,325	\$ (65,714,774)	\$ 207,597,115	\$ 150,487,910	
Percentage Change	-17.1%	44.3%	18.2%	-7.2%	29.5%	27.2%	
PERS Administrative Costs							
Grand Total All Costs	\$ 1,196,305,251	\$ 1,442,410,880	\$ 999,681,203	\$ 846,093,878	\$ 911,808,652	\$ 704,211,537	
Percentage of AUM	1.21%	1.50%	1.03%	1.07%	1.13%	0.94%	

Public Employees Retirement System Klein

Request: Report on the preliminary crediting of 2023 earnings received through investments of the Oregon Public Employees Retirement Fund regular account by the Public Employees Retirement System (PERS).

Recommendation: Acknowledge receipt of the report.

Discussion: Under ORS 238.670(5), PERS is required to submit a preliminary proposal to the Legislature at least 30-days before making a final decision on the final allocation of earnings. The preliminary report estimates gains of \$5.3 billion in the Oregon Public Employees Retirement Fund (OPERF) regular account. The PERS Board will meet on April 1, 2024, to decide whether to adopt the following preliminary findings:

Non-Discretionary Allocations:

- Tier One Member Regular Accounts Reserve and Judge Member Accounts - will be credited the assumed earning rate of 6.90 percent in effect for 2023.
- Tier Two Member Regular Accounts - will allocate a proportional share of the gains, which results in a preliminary rate of 5.53 percent.
- Benefit-in-force - will allocate a proportional share of gains, which results in a preliminary rate of 5.53 percent.
- Employer Reserves - will allocate a proportional share of gains, which results in a preliminary rate of 5.53 percent.
- Oregon Public Service Retirement Plan (OPSRP) - will allocate a proportional share of gains, which results in a preliminary rate of 5.58 percent.

Earnings allocations directed by statute or rule:

Individual Account Program (IAP) – the overall preliminary earnings for 2023 are 6.72 percent after deducting IAP expenses.

In accordance with Senate Bill 1049 (2019), effective July 1, 2020, for all currently employed Tier One/Tier Two and OPSRP members earning \$3,750/month or more (\$3,688 in 2024), a portion of their six percent monthly IAP contributions will be redirected to an Employee Pension Stability Account (EPSA). This account will be used to pay for part of the member's future pension benefit.

Tier One/Tier Two member EPSA accounts will be credited with the same rate as Tier Two Regular Member accounts, which is 5.53 percent. OPSRP member EPSA accounts will be credited with the same rate as OPSRP Pension Member Accounts, which is 5.58 percent.

Employer lump sum payment accounts - these accounts are credited with actual earnings or losses, less administrative expenses. For 2023, the crediting rate for the side accounts established before January 1, 2023, is 5.75 percent. For new lump sum payment accounts, the crediting rate will vary depending on the time of the payments.

Health Insurance accounts – these accounts are created as part of the PERS Fund and credited with actual earnings or losses. For the Retirement Health Insurance Account (RHIA) the rate is 5.69 percent, for the Retiree Health Insurance Premium (RHIP) account the rate is 4.76 percent and for the Standard Retiree Health Insurance Account (SRHIA) the rate is 3.18 percent (this account is invested in the Treasury Short-Term Fund).

Variable Annuity account - this account is credited with earnings and losses on its distinct asset allocation of the PERS Fund. For 2023 the account earnings are 27.38 percent.

Administrative expenses - are funded by earnings when they are sufficient, as they were in 2023 (ORS 238.610(1)).



Oregon

Tina Kotek, Governor

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February 2, 2024

TO: Members of the PERS Board

FROM: Richard Horsford, Chief Financial Officer
Matt Graves, Financial Reporting Manager

SUBJECT: 2023 Preliminary Earnings Crediting and Reserving

OVERVIEW

- Action: Allocate 2023 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 2023 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; allocation of the balance, if any, is at the PERS Board's discretion.

2023 PRELIMINARY ALLOCATIONS

The PERS Board's Annual Earnings Crediting rule (see OAR 459-007-0005) directs the crediting to the Judge and Tier Two member regular accounts, as well as the Oregon Public Service Retirement Plan (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 of 6.90% in effect during 2023.

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 and Judge member accounts when earnings are less than the assumed rate. Because earnings on Tier One member regular accounts for 2023 are less than the assumed rate, the earnings credited to this reserve will be reduced by the amount needed to bring the earnings rate credited to Tier One member regular accounts and Judge member accounts to the assumed rate of 6.9%. The net earnings credited to this reserve are \$13.7 million, or 1.86%, bringing the ending reserves after crediting to \$750.2 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 5.53%.

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 5.53%.

4. OPSRP Pension Plan Member Accounts

OPSRP member accounts usually are credited with a proportional share of available PERS Fund Regular Account earnings or losses, which will result in a preliminary rate of 5.58%.

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 2023 are 6.72% 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	2023 Crediting	Reserves After Crediting	2023 Rates
RAF Fund	\$ 458,353.9	\$ 42,336.7	\$ 500,690.6	9.23%
2025 Fund	1,240,265.3	80,618.4	1,320,883.7	6.50%
2030 Fund	1,966,921.0	139,569.8	2,106,490.8	7.09%
2035 Fund	2,531,203.8	172,318.5	2,703,522.3	6.80%
2040 Fund	2,355,839.7	139,572.9	2,495,412.6	5.92%
2045 Fund	1,811,384.6	118,268.4	1,929,653.0	6.52%
2050 Fund	1,020,176.0	86,362.6	1,106,538.6	8.46%
2055 Fund	473,480.8	37,247.6	510,728.4	7.86%
2060 Fund	168,637.3	11,592.4	180,229.7	6.87%
2065 Fund	45,643.2	3,217.1	48,860.3	7.04%
Total	\$12,071,905.6	\$831,104.4	\$12,903,010.0	

In accordance with Senate Bill 1049 (2019), effective July 1, 2020, for all currently employed Tier One/Tier Two and OPSRP members earning \$3,570/month or more (\$3,688 in 2024), a portion of their 6% monthly IAP contributions will be redirected to an “Employee Pension Stability Account.” The Employee Pension Stability Account (EPSA) will be used to pay for part of the member’s future pension benefit.

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 5.53%.

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 5.58%.

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 2023, the preliminary crediting rate for the side accounts established before 1/1/2023 is 5.75%. The preliminary crediting rate for new lump sum payment accounts varies depending on the time of payments.

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 2023, the preliminary crediting rate for these accounts are listed in the table below:

Oregon Public Employees Retirement System Health Insurance Accounts Preliminary Rates	
Health Insurance Fund	2023
RHIA	5.69%
RHIPA	4.76%
SRHIA *	3.18%

* 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 2023, the preliminary Variable Annuity Account earnings is 27.38%.

Administrative Expenses

PERS administrative costs are funded by earnings when they are sufficient, as they were in 2023 (ORS 238.610(1)).

The following charts present preliminary earnings crediting and reserving for 2023:

Oregon Public Employees Retirement System Calendar Year 2023 Preliminary 2023 Crediting and Reserving No Contingency Reserve Funding (All dollar amounts in millions)								
	Reserves Before Crediting	Gross Investment Income (a)	Investment Expense (b)	Administrative Expenses (c)	Other Adjustments ⁴ (d)	Net 2023 Crediting (a+b+c+d)	Reserves After Crediting	2023 Rates
Tier One Member Regular Accounts	\$1,980.5	\$187.5	(\$29.8)	(\$2.9)	(\$18.1)	\$136.7	\$2,117.2	6.90%
Tier One Rate Guarantee Reserve	736.5	-	-	-	13.7	13.7	750.2	1.86%
Tier Two Member Regular Accounts	977.5	67.4	(10.7)	(1.1)	(1.6)	54.0	1,031.5	5.53%
Benefits In Force Reserve	15,026.3	1,036.7	(164.8)	(16.2)	(23.9)	831.8	15,858.1	5.53%
Employer Reserves	42,769.6	2,953.6	(469.6)	(46.3)	(68.1)	2,369.6	45,139.2	5.53%
Tier One/Two Employee Pension Stability Account ¹	272.6	17.8	(2.9)	-	(0.4)	14.5	287.1	5.53%
OPSRP Pension	12,020.9	774.8	(123.2)	(16.7)	36.4	671.3	12,692.2	5.58%
OPSRP Employee Pension Stability Account ²	244.1	14.2	(2.3)	-	1.8	13.7	257.8	5.58%
IAP Accounts, as a whole ³	12,520.4	983.1	(103.1)	(17.3)	(20.5)	842.2	13,362.6	6.72%
UAL Lump-Sum Pmt. Side Accounts ³	5,091.6	385.7	(61.3)	(0.2)	-	324.2	5,415.8	Various ⁵
Contingency Reserve ⁶	50.0	-	-	-	-	-	50.0	N/A
Total	\$91,690.0	\$6,420.8	(\$967.7)	(\$100.7)	(\$80.7)	\$5,271.7	\$96,961.7	

¹ Per OAR 459-007-0005 (14)(a), Tier One/Two Employee Pension Stability Account will receive the Tier Two Member rate.

² Per OAR 459-007-0005 (14)(b), OPSRP Employee Pension Stability Account will receive the OPSRP Pension rate.

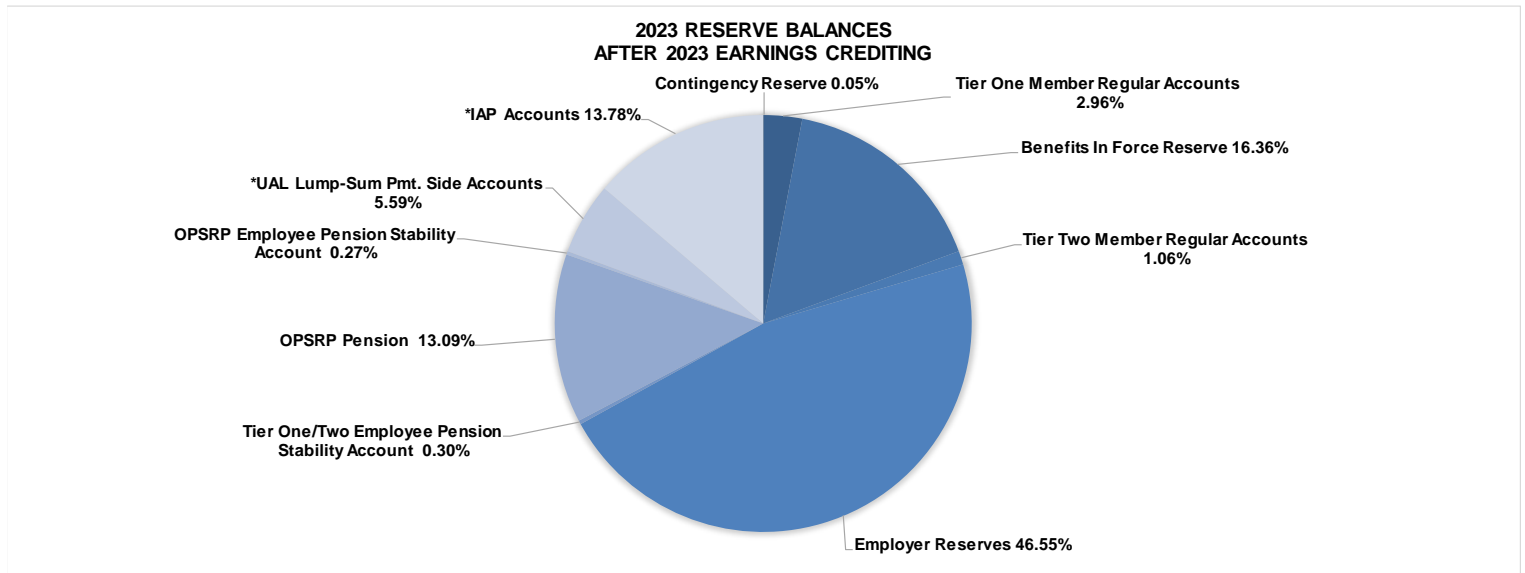
³ Informational only. Not affected by Board reserving or crediting decisions.

⁴ Primarily due to defined benefit commingled earnings transfer and the earnings credited to mid-year retirements.

⁵ The preliminary earnings rate for the pre-2023 Side Accounts is 5.75%.

⁶ The contingency reserve balance is \$49,978,971.08.

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 2023 earnings.

BOARD OPTIONS

The PERS Board may:

1. Pass a motion to “adopt the preliminary crediting of earnings as presented for calendar year 2023, subject to final adoption at the April 1, 2024, PERS Board meeting.”
2. Pass a motion preliminarily allocating 2023 earnings in an alternative proportion, subject to final adoption at the April 1, 2024, PERS Board meeting.

STAFF RECOMMENDATION

Staff recommends the PERS 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 April 1, 2024.

This preliminary action and the resulting report to the Legislature do not prohibit the PERS Board from changing its final decision, such as 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.5. Attachment 1: ORS 238.670 – *Reserve Accounts in Fund*

C.5. Attachment 2: OAR 459-007-0005 – *Annual Earnings Crediting Rule*

C.5. Attachment 3: ORS 238.610 – *Administrative Expenses of System, Rules*