

# **PERS Employer Town Halls**

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**October – November 2015**



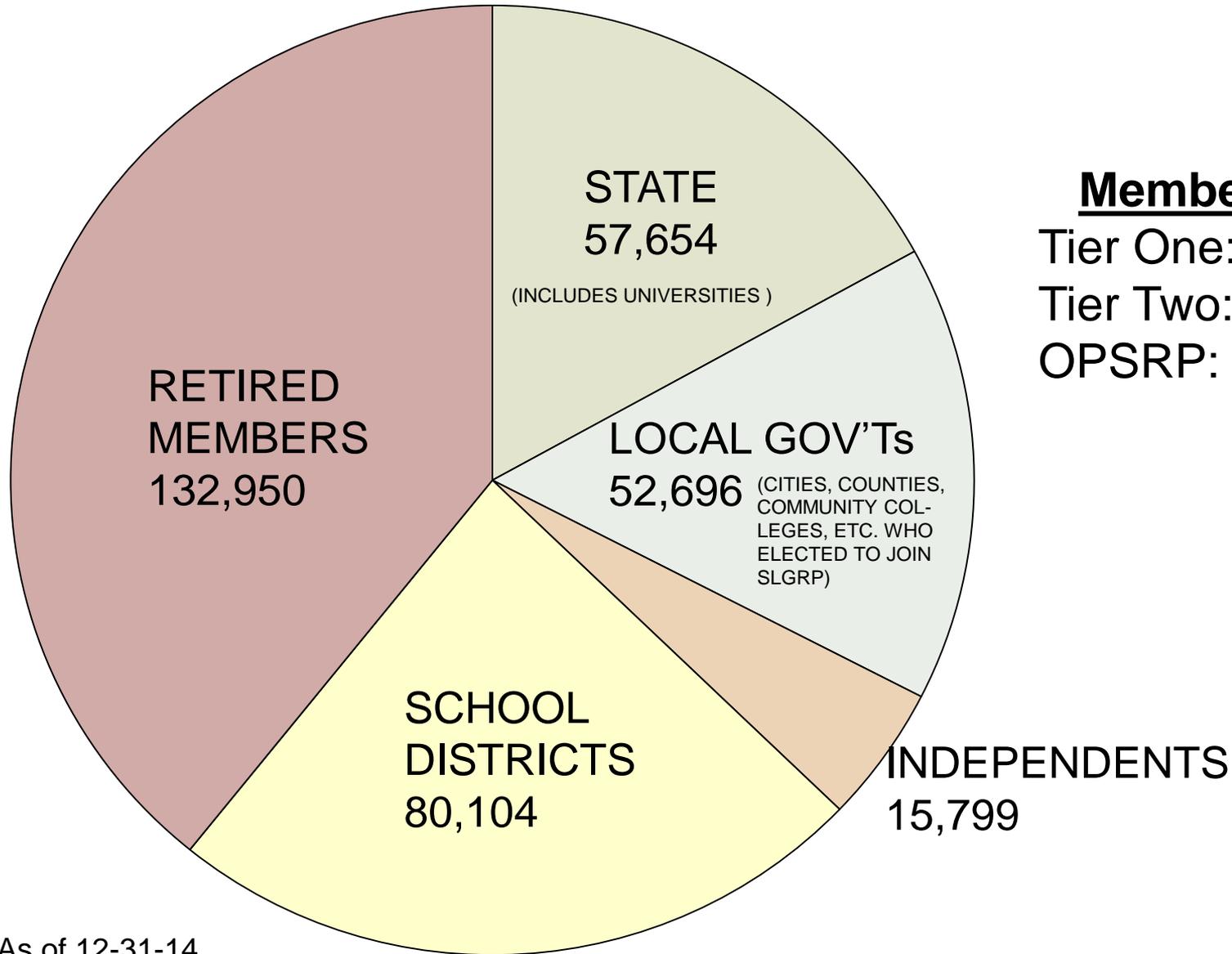
# Welcome – Thank you for participating

- PERS serves 900+ Oregon public employers by administering the retirement plan for approximately 330,000 current and retired members
- Each year, PERS receives \$1 billion in contributions and pays almost \$4 billion to benefit recipients in Oregon
- Your employees may change public employers during their careers, but PERS maintains a relationship with them for their lifetime and beyond

This presentation will:

- Review the PERS funding equation and its dynamics, including the main drivers of the system's funded status and unfunded actuarial liability (UAL); and
- Review 2017-2019 advisory employer contribution rates and projections for future employer rates.

# Who is PERS?



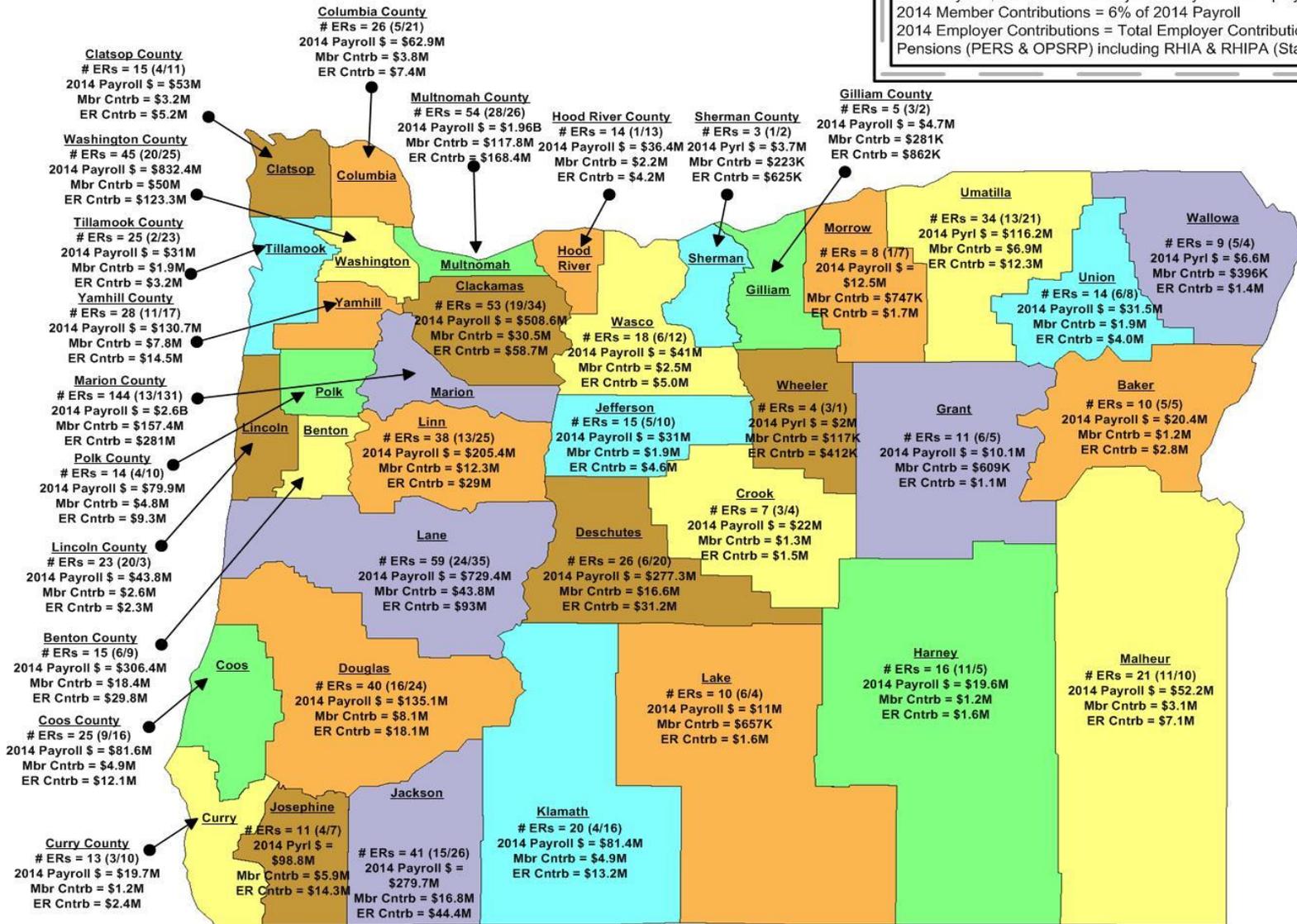
**Membership**  
Tier One: 49,687  
Tier Two: 57,945  
OPSRP: 98,612

As of 12-31-14

# PERS Employer Profile by County in 2014

## LEGEND

# Employers = Total Employers (School Districts/All Other Employers)  
 2014 Payroll \$ = Cumulative Subject Salary for All Employers Within the County  
 2014 Member Contributions = 6% of 2014 Payroll  
 2014 Employer Contributions = Total Employer Contributions Paid in 2014 for Pensions (PERS & OPSRP) including RHIA & RHIPA (State Agencies Only)





# The PERS Funding Equation

At the end of each calendar year, the PERS actuaries calculate the system's funded status using the following basic equation:

$$B = C + E$$

**BENEFITS = CONTRIBUTIONS + EARNINGS**

present value of  
earned benefits

employer funds to pay  
pension benefits

future returns on  
invested funds

Set by:

Oregon Legislature

Set by:

PERS Board

Managed by:

Oregon Investment Council

Every two years, the PERS Board adjusts contributions so that, over time, those contributions will be sufficient to fund the benefits earned, if earnings follow assumptions.

# Employer Contribution Rate Setting Cycle

Actuarial valuations are conducted annually, but alternate between “advisory” and “rate setting” valuations: e.g., the December 31, 2014, valuation results project what employer rates might become, and the December 31, 2015, valuation will be used to set actual rates.

Once employer rates are adopted by the PERS Board (in the fall of the even-numbered year), they become effective the following July 1 of the odd-numbered year (18 months after the valuation date).

Valuation Date	Employer Contribution Rates
December 31, 2013	→ July 2015 - June 2017
December 31, 2015	→ July 2017 - June 2019
December 31, 2017	→ July 2019 - June 2021

# Solving the Equation . . .

When setting employer contribution rates, the PERS Board has the following objectives:

- Transparent process and inputs
- Predictable and stable employer contribution rates
- Protect funded status to secure future benefit payments
- Equitable across generations of taxpayers funding the system
- Actuarially sound – fully fund the system if assumptions are met
- GASB compliant

*Some of the objectives can conflict, particularly in periods with significant volatility in investment return or projected benefit levels. Overall system funding policies should seek an appropriate balance between conflicting objectives.*

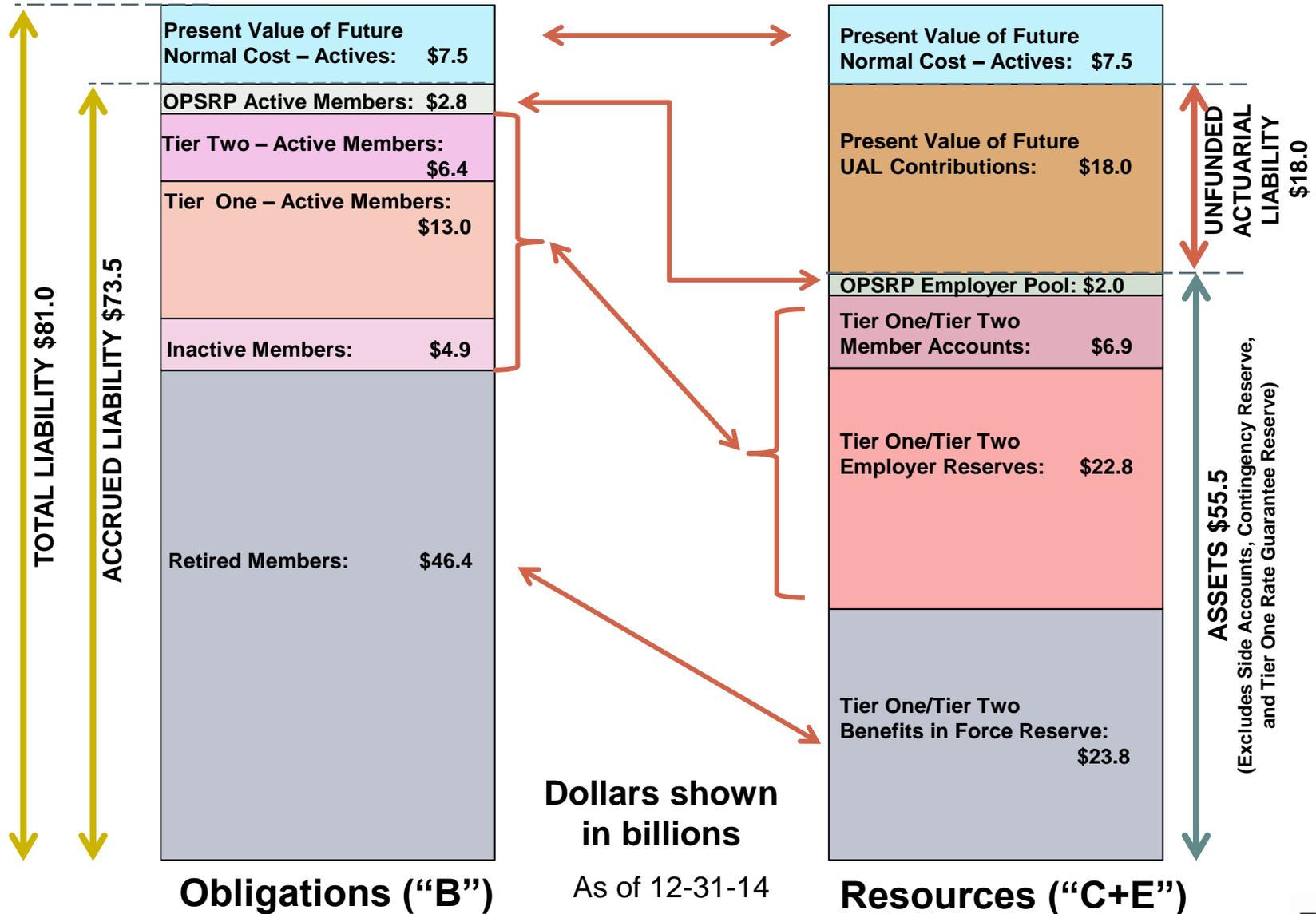
# Balancing the “B”, “C”, and “E”

## PENSION BENEFIT FUNDING SOURCES (1970-2014)

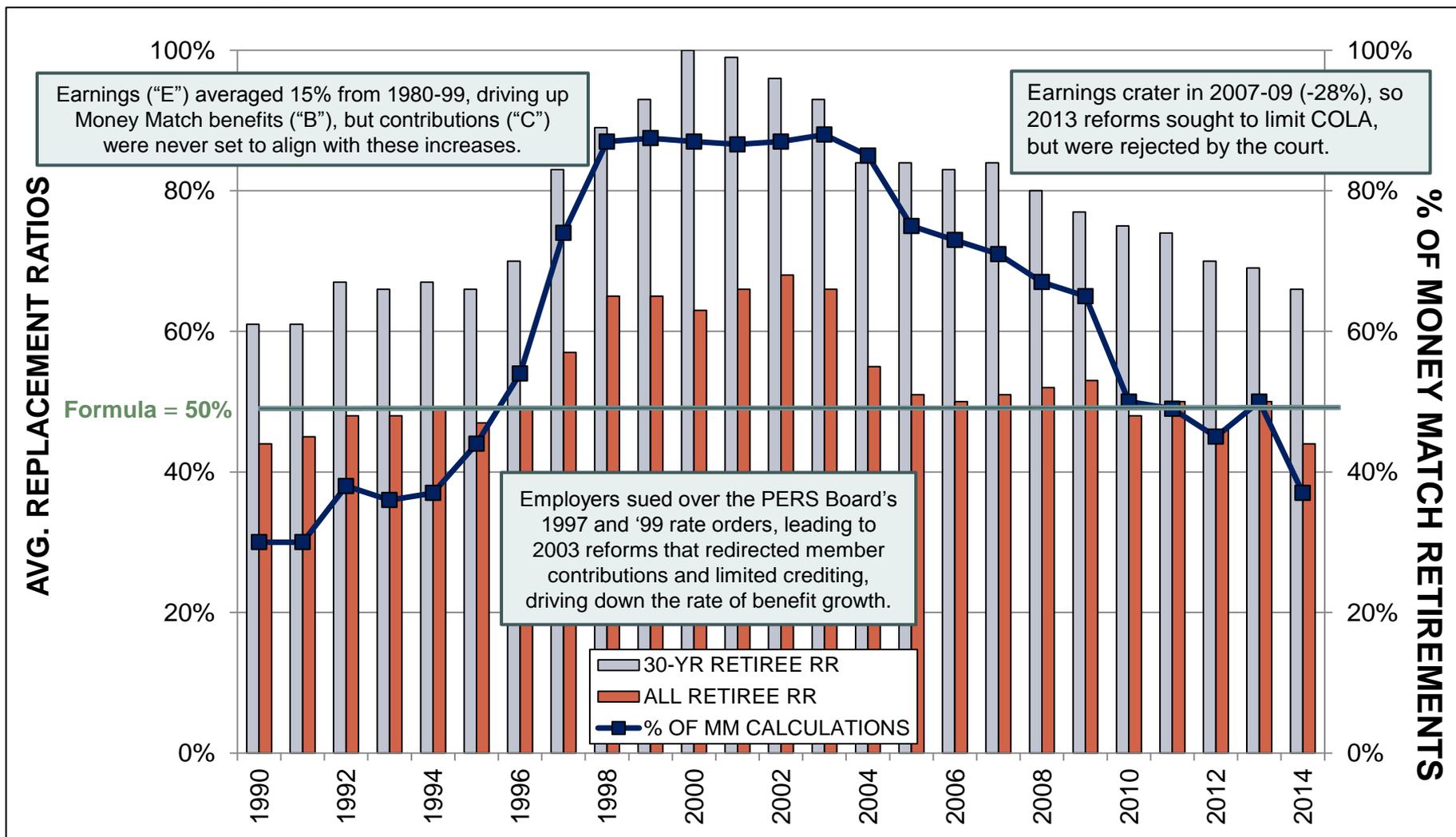


Since 1970, the total revenues into PERS to pay for Tier One and Tier Two benefits have come from these three sources. Member contributions were diverted to the Individual Account Program starting in 2004, so their share of revenue will diminish over time.

# Problem: the “B” and “C+E” Don’t Align



# Where the Funding Balance Got Away – Avg. Replacement Ratios (% of “final salary” to monthly benefit)



# System Funded Status and UAL (\$ in billions)

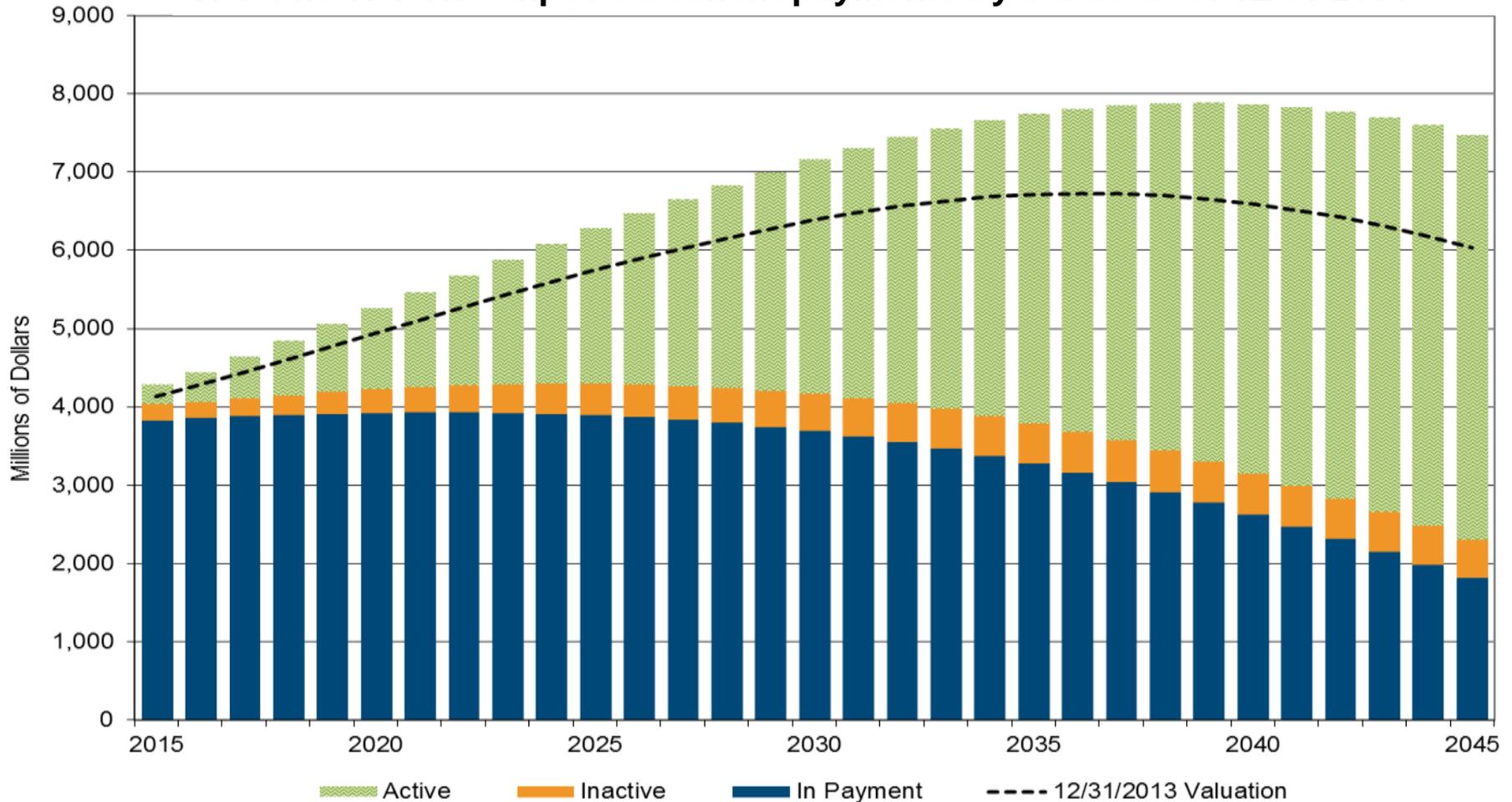
	12/31/2013	12/31/2014
Actuarial liability	\$62.6	\$73.5
Assets (excluding side accounts)	<u>\$54.1</u>	<u>\$55.5</u>
UAL (excluding side accounts)	\$ 8.5	\$18.0
Funded status (excluding side accounts)	86%	76%

Side account assets	<u>\$ 5.9</u>	<u>\$ 5.9</u>
UAL (including side accounts)	\$ 2.6	\$12.1
Funded status (including side accounts)	96%	84%

Sources of 2014 UAL Increase	UAL Increase
Expected UAL increase during 2014	\$0.2 B
2014 actual investment performance below assumption	\$0.2 B
<i>Moro</i> adjustment to projected benefits	\$5.1 B
Decrease in assumed return to 7.50%	\$1.7 B
Update to mortality assumption	\$1.8 B
All other assumption changes and actual experience	<u>\$0.5 B</u>
<b>Total</b>	<b><u>\$9.5B</u></b>

# Projected Benefit Payments

Tier One/Tier Two expected benefit payments by status as of 12/31/2014



Milliman presentation; September 25, 2015 Board meeting

# System-Wide Pension Rates

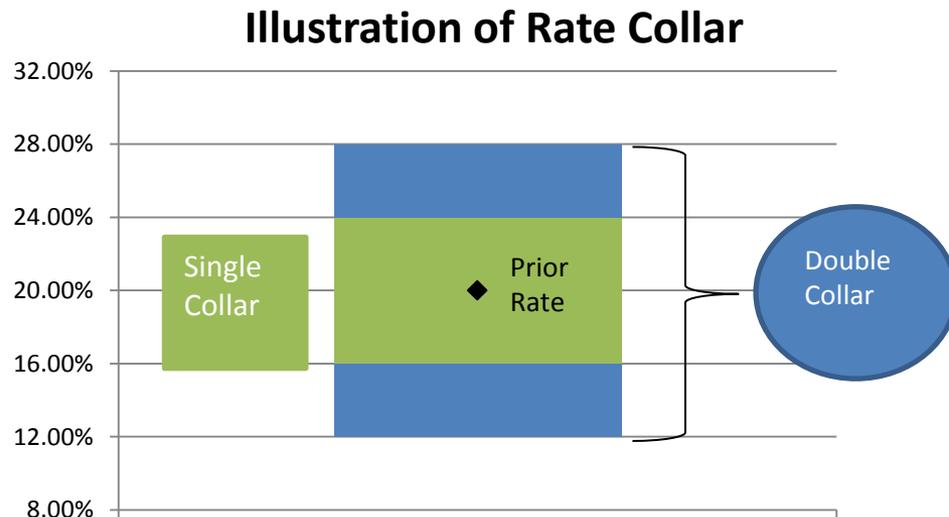
Excludes Retiree Health Care, IAP Contributions, Side Accounts

	12/31/2013 2015 - 2017 Final			12/31/2014 2017 - 2019 Advisory		
	Payroll			Payroll		
	Tier 1/ Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1/ Tier 2	OPSRP	Weighted Average <sup>1</sup>
Normal Cost	13.18%	7.79%	10.94%	15.41%	8.63%	12.30%
Tier 1/Tier 2 UAL	6.63%	6.63%	6.63%	13.68%	13.68%	13.68%
OPSRP UAL	0.61%	0.61%	0.61%	1.01%	1.01%	1.01%
<b>Uncollared Rate</b>	<b>20.42%</b>	<b>15.03%</b>	<b>18.18%</b>	<b>30.10%</b>	<b>23.32%</b>	<b>26.99%</b>
<b>Increase</b>				<b>9.68%</b>	<b>8.29%</b>	<b>8.81%</b>
<b>Collar Limitation</b>	(0.72%)	(0.72%)	(0.72%)	(6.25%)	(6.25%)	(6.25%)
<b>Collared Base Rate</b>				<b>4.15%</b>	<b>2.76%</b>	<b>3.28%</b>

<sup>1</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

# Current Design of Rate Collar

- The maximum change typically permitted by the collar is 20% of the rate currently in effect (3% of payroll minimum collar width)
- If funded status is 60% or lower, the width of the collar doubles to 40% of rate currently in effect (6% of payroll minimum collar width)
- If the funded status is between 60% and 70%, the collar size is prorated between the initial collar and double collar level



- Rate collars are calculated at a rate pool level and limit the biennium to biennium increase in the UAL rate for a given rate pool

# 2017-19 Contribution Increase Estimates

(\$ millions)	Projected 2015-17 Payroll*	(A) Projected 2015-17 Contribution	Projected 2017-19 Payroll*	(B) Projected 2017-19 Contribution	(B) - (A) Projected Contribution Increase
State Agencies	\$5,580	\$575	\$5,980	\$800	\$225
School Districts	\$5,950	\$560	\$6,370	\$850	\$290
All Others	<u>\$7,350</u>	<u>\$870</u>	<u>\$7,870</u>	<u>\$1,155</u>	<u>\$285</u>
<b>Total</b>	<b>\$18,880</b>	<b>\$2,005</b>	<b>\$20,220</b>	<b>\$2,805</b>	<b>\$800</b>

\* Assumes payroll grows at 3.50% annually based on 12/31/2014 active member census, reflecting proportional payroll composition (Tier 1/Tier 2 vs. OPSRP) as of 12/31/2014

- Projected 2017-19 contributions are determined by applying collared net advisory rates calculated in the 12/31/2014 valuation
- Projections do not reflect the effects of actual 2015 investment returns

# Tier One/Tier Two Employer Rate Pool Funded Status and UAL

- Funded status differs for the two large Tier One/Tier Two rate pools

(\$ in billions)	SLGRP*	School Districts
Actuarial liability	\$37.2	\$27.1
Assets (excluding side accounts)	<u>\$28.5</u>	<u>\$20.3</u>
UAL (excluding side accounts)	\$8.7	\$6.8
Funded status (excluding side accounts)	77%	75%
Projected 2015 payroll	\$5.4	\$2.9
Ratio of UAL to payroll	161%	234%

Side account assets	\$2.7	\$3.1
UAL (including side accounts)	\$6.0	\$3.7
Funded status (including side accounts)	84%	86%

\* State and Local Government Rate Pool

# Summary

- PERS Funding Equation:  $\text{Benefits} = \text{Contributions} + \text{Earnings}$
- The equation is reviewed every year and rebalanced by the PERS Board setting employer contribution rates every two years
- Individual 2017-2019 advisory employer contribution rates (based on the December 13, 2014 valuation) will be distributed soon
- Actual 2017-2019 employer contribution rates (effective July 1, 2017) will be approved by the PERS Board in fall 2016, using:
  - Actual investment performance for 2014 and 2015;
  - Restored benefits from the *Moro* decision; and
  - Actuarial methods and assumptions adopted by the PERS Board at its September 25, 2015 meeting

**Questions? Contact the PERS Employer Service Center: 888-320-7377**