



Oregon

Kate Brown, Governor

Public Employees Retirement System

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September 25, 2015

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Adoption of Assumed Rate Rule:
OAR 459-007-0007, *Assumed Rate*

OVERVIEW

- Action: Adopt modifications to Assumed Rate rule.
- Reason: Reflect the change in the assumed rate as adopted by the Board and specify the effective date for implementation of the change for PERS transactions.
- Policy Issue: No policy issues were identified.

BACKGROUND

At the July 31, 2015 PERS Board meeting, staff gave notice of rulemaking to implement any change to the assumed rate. The proposed rule sets forth the new assumed rate of 7.50% adopted by the Board.

The rule also specifies that the new assumed rate will be effective for PERS transactions with an effective date of January 1, 2016, consistent with this Board's policy decision from 2013 that changes to the assumed rate will be effective the following January 1, giving staff ample time to perform the necessary preparation, communicate with members and employers, and treating all members who retire in a year that a change is adopted equitable treatment, no matter which month they retire. The new assumed rate will be aligned with the new actuarial equivalency factors (AEFs), which will allow for a clear effective date for all transactions that involve calculations using both the latest year-to-date rate and AEF components.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

The adopted assumed rate of 7.50% was added in section (3).

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held August 25, 2015, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public commented on the rule. A second rulemaking hearing was held August 27, 2015, at 2:00 p.m. at Oregon State Archives in Salem. No members of the public attended. The public comment period ended September 1, 2015, at 5:00 p.m. Two public comments were received.

PERS received a public comment letter dated July 11, 2015, from Doug Crummé. A copy of his letter is included as Attachment 2. Mr. Crummé argues that the assumed rate should not be lowered and, if anything, it should be returned to 8%. He referenced Milliman's May 29, 2015

PowerPoint presentation which predicted a 75% chance that PERS would be 100% funded in the next 20 years, and added that PERS investments have consistently outperformed the market. Mr. Crummé also noted that PERS had previously maintained an 8% assumed rate for around 25 years, despite several investment downturns. Included in his letter is an attachment showing the 42-year average percentage earnings credited to member accounts.

In Milliman's July 31, 2015 presentation to the PERS Board, the actuaries concluded that the long-term future investment return assumption should be lowered based on data from the investment forecasts and review of the guiding principles presented. The Oregon Investment Council also supported a decrease in the assumed rate due to the collapse in bond yields and persistent downward pressures on interest rates. On July 31, the PERS Board decided to reduce the assumed rate to 7.50%, and the administrative rule must be updated based on the new adopted rate. Mr. Crummé's points may be relevant to the Board's July decision, but now since that decision has been made, the rule needs to be modified to reflect that decision.

On August 20, 2015, PERS received a public comment email from Marc Feldesman. A copy of his email is included as Attachment 3. Mr. Feldesman argues that an effective date of January 1, 2016 is too early, because actuarial factors associated with the assumed rate change and the change in mortality factors will not be known until the November Board meeting. He states that members should have at least one full month to evaluate the impact of rate and mortality changes to make an informed retirement decision. In a subsequent email, staff informed Mr. Feldesman that PERS' actuary, Milliman, intended to have the updated AEF tables ready no later than November 1 (earlier if possible). PERS will post the tables on the PERS website following receipt.

Examples from the impact of the rate changes considered were included in the Milliman presentations for both May and July's meetings. While members considering retirement cannot precisely determine the impact of these changes until the new tables are available, their order of magnitude is illustrated and shows how much longer a member needs to delay retirement to achieve roughly equivalent monthly benefits, if that is driving their decision to retire.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rule as presented for adoption.

IMPACT

Mandatory: Yes, the assumed rate determined by the Board must be adopted by rule and clearly describe the effective date of the assumed rate change on PERS transactions.

Impact: The proposed rule benefits members, employers, and staff by setting forth the assumed rate and a clear effective date for implementing a change in the rate.

Cost: There are no discrete costs directly attributable to specifying the assumed rate in rule.

RULEMAKING TIMELINE

July 15, 2015 Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.

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| July 31, 2015 | PERS Board notified that staff began the rulemaking process. |
| August 1, 2015 | <i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began. |
| August 25, 2015 | First rulemaking hearing held at 2:00 p.m. at PERS in Tigard. |
| August 27, 2015 | Second rulemaking hearing held at 2:00 p.m. at Oregon State Archives in Salem. |
| September 1, 2015 | Public comment period ended at 5:00 p.m. |
| September 25, 2015 | Board may adopt the permanent rule modifications. |

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Assumed Rate rule, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Reflect the change in the assumed rate as adopted by the Board and specify the effective date for implementation of the change for PERS transactions.

If the Board does not adopt: Staff would return with rule modifications that more closely fit the Board’s policy direction if the Board determines that a change is warranted.

B.5. Attachment 1 – 459-007-0007, *Assumed Rate*

B.5. Attachment 2 – Public Comment Letter from Doug Crummé

B.5. Attachment 3 – Public Comment Email from Marc Feldesman