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Equal To Or Better (ETOB) Testing - Test Results

Oregon Public Employees Retirement System

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Background

- Police and Fire employers not participating in Oregon PERS are required to provide retirement benefits that are "equal to or better" ("ETOB") than the retirement benefits provided by Oregon PERS
- The PERS Board is required to determine if employers satisfy the ETOB requirement
- The last test was performed in 2005, and all employers passed
  - That test was prospective only and compared the value of future accruals in the employee's current plan to the value of joining OPSRP
- The Legislature amended the ETOB requirements to test employees by class
  - Classes are based on the hire date criteria for Tier 1, Tier 2 & OPSRP
- The new test is much more complex
  - Requires three separate tests for each employer
  - Requires testing full-career benefits rather than just benefits expected to be earned in the future

ETOB Testing Principles

- PERS established three guiding principles for ETOB testing:
  - Comparability
    - The test should strive for an “apples to apples” comparison
  - Durability
    - Test results should be consistent over time, barring a change to plan provisions
    - Rule requires testing at least every twelve years
  - Cost Effectiveness
    - The least expensive method that does not compromise the validity of results should be used
- When required to make any judgment calls while conducting the test, we referenced these principles

Guidance for Conducting an ETOB Test
OAR 439-030-0025

- It is required that aggregate benefits for each tier are ETOB
  - It is not required that benefits for each and every employee be ETOB
- The PERS 8% investment return assumption is used in the calculations
  - For employers that sponsor defined contribution plans, this represents a hypothetical “expected value to the employee” of the account balance available at retirement, based on the 8% return assumption
- A stable, hypothetical employee data set consisting of PERS Police & Fire Members was used to increase the test’s durability and consistency
- Testing was conducted as of a December 31, 2008 valuation date
- Oregon PERS actuarial valuation assumptions for Police & Fire Members from the December 31, 2008 actuarial valuation were used in the test
- Only the value of <u>employer funded</u> benefits are compared, with any benefits funded by Member contributions excluded from the calculation
  - For example, the values of the IAP and any benefits funded by Tier 1 / Tier 2 Member contributions are not included in the tested PERS benefit

Required Benefit Levels to Satisfy ETOB

Calculation of PERS Employer-Funded Benefits

	Average Age	Average Service	Present Value of Full-Career Employer Funded Benefit as a % of Pay
Tier 1	48	19	481%
Tier 2	41	9	377%
OPSRP	35	3	262%

- This table displays the present value as of the valuation date of the employer funded PERS benefit, expressed as a percentage of 2008 PERS subject salary
  - Example: An average Tier 2 Police & Fire Member with $63,000 pay has a present value of $237,500 (or 377% of pay) for the employer-funded portion of his or her projected full-career benefit, based on the test assumptions
- Tier 1 has the highest present value as of the valuation date because Tier 1 Members are the oldest and hence the closest to retirement
- Tier 2 is the most difficult tier against which to satisfy the ETOB requirement
  - Tier 1 and Tier 2 offer very similar Police & Fire benefit levels
  - Tier 1 Members have a higher number of years with Member contributions

Test Results

ETOB Test Ratio Results by Employer and Tier

	Tier 1	Tier 2	OPSRP
City of Forest Grove	120%	115%	147%
City of Seaside	144%	124%	156%
City of Springfield	151%	124%	164%
City of The Dalles	115%	96%	123%
Mid-Columbia Fire & Rescue	164%	142%	182%
Tillamook County	116%	100%	127%
Union County	117%	92%	120%
Wheeler County	145%	120%	151%

- Using the present value amounts from the prior slide as the ETOB requirement, the eight employers in the table at the left were tested
- Six of those employers fully satisfied ETOB for all tiers
- Two employers failed to satisfy ETOB for Tier 2
- For some employers, not all plans offered by the employer were valued, as the employer satisfied ETOB without their inclusion

- Two other employers (Morrow County, City of Portland) were already deemed to satisfy ETOB via a “preliminary determination” review of plan provisions

Next Steps

- Based on the results of the testing conducted by Mercer, PERS staff recommends that the PERS Board adopt a motion granting ETOB exemptions to eight employers that have been determined to satisfy the statutory requirements under ORS 237.620 and the related OARs:
  - City of Forest Grove
  - City of Portland
  - City of Seaside
  - City of Springfield
  - Mid-Columbia Fire & Rescue
  - Morrow County
  - Tillamook County
  - Wheeler County
- Formal ETOB testing reports will be distributed to employers over the next one to two weeks

Next Steps

- Two employers do not satisfy the ETOB statutory requirements based on the testing results:
  - City of The Dalles
  - Union County
- Receiving the formal ETOB testing report triggers a period (of at least 90 days) for those employers to either amend their plans to become eligible for an exemption or to comply with the requirement of ORS 237.620(3) to "provide that class of employees with retirement benefits adequate to meet the [ETOB] requirements."

Important Information

Mercer has prepared this presentation exclusively for the Oregon PERS Board to inform the Board and other stakeholders of the results of "Equal to or Better Than" (ETOB) testing required under Oregon Statute. This presentation may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any unauthorized use. Actuarial computations for purposes other than those specified in this report, such as calculation of ongoing funding requirements, may be significantly different.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future. Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, various *actuarial assumptions*, as summarized in this presentation and detailed in the formal employer-specific reports, were used to select a single scenario from a range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain, and the system's actual experience will likely differ from the assumptions utilized and the scenarios presented; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios. To prepare the results shown in this report, various *actuarial methods*, as described in the Appendix, were used.

Because actual system experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios and not solely on the basis of a valuation report or reports.

This report is based on data and system provisions as described in the Appendix. Oregon PERS and public employers subject to ETOB testing are solely responsible for the validity, accuracy and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

Important Information

Actuarial Calculations, Methods and Assumptions

To the best of our knowledge and belief, this report is complete and accurate and all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures laid out in the governing Oregon Administrative Rules and as approved by the PERS Board. Certain actuarial assumptions, including the investment return/discount rate assumption, are prescribed by the governing Oregon Administrative Rule, while other assumptions not prescribed by the rule are based on the most recent experience study, as adopted by the PERS Board. This report is based on assumptions, plan provisions, methods and other parameters as summarized in the Appendix. If this information is inaccurate or incomplete or does not reflect current statutes, regulations or Board directives, the reader of this report should not rely on the results and should notify Mercer promptly. In our opinion, this report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

Professional Qualifications

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

Sept. 24, 2010

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The information contained in this document is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

Important Information
Actuarial Basis

Data

We have based our calculation of both PERS and ETOB employer liabilities on the data, methods, assumptions and plan provisions described in the December 31, 2008, Actuarial Valuation ("2008 Valuation Report") for the Oregon Public Employees Retirement System, as modified by ETOB testing requirements specified in the Oregon Statute and Oregon Administrative Rule (OAR) governing the test. Details on this actuarial basis can be found in Mercer's 2009 and 2010 Board presentations on ETOB testing, and the forthcoming ETOB testing reports for individual ETOB employers ("ETOB reports").

The active public safety data from the Oregon PERS December 31, 2008, Actuarial Valuation was used to develop "hypothetical data" used for the ETOB test, as prescribed in the OAR.

Methods / Policies

Liabilities are based on the total Present Value of Benefits of Service and Disability Retirement Benefits offered under the plans being compared. Additional detail can be found in the forthcoming ETOB Reports.

Assumptions

In general, assumptions for ETOB testing purposes are as described in the 2008 Valuation Report, with specific modifications for the purpose of conducting the ETOB test. These modifications are discussed in the forthcoming ETOB Reports and in Mercer's 2009 and 2010 Board presentations on ETOB.

Provisions

Provisions valued are as detailed in the forthcoming ETOB Reports.

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