



PERS & SB1566 Update: A presentation to SDAO Legislative Days

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January 18, 2019

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

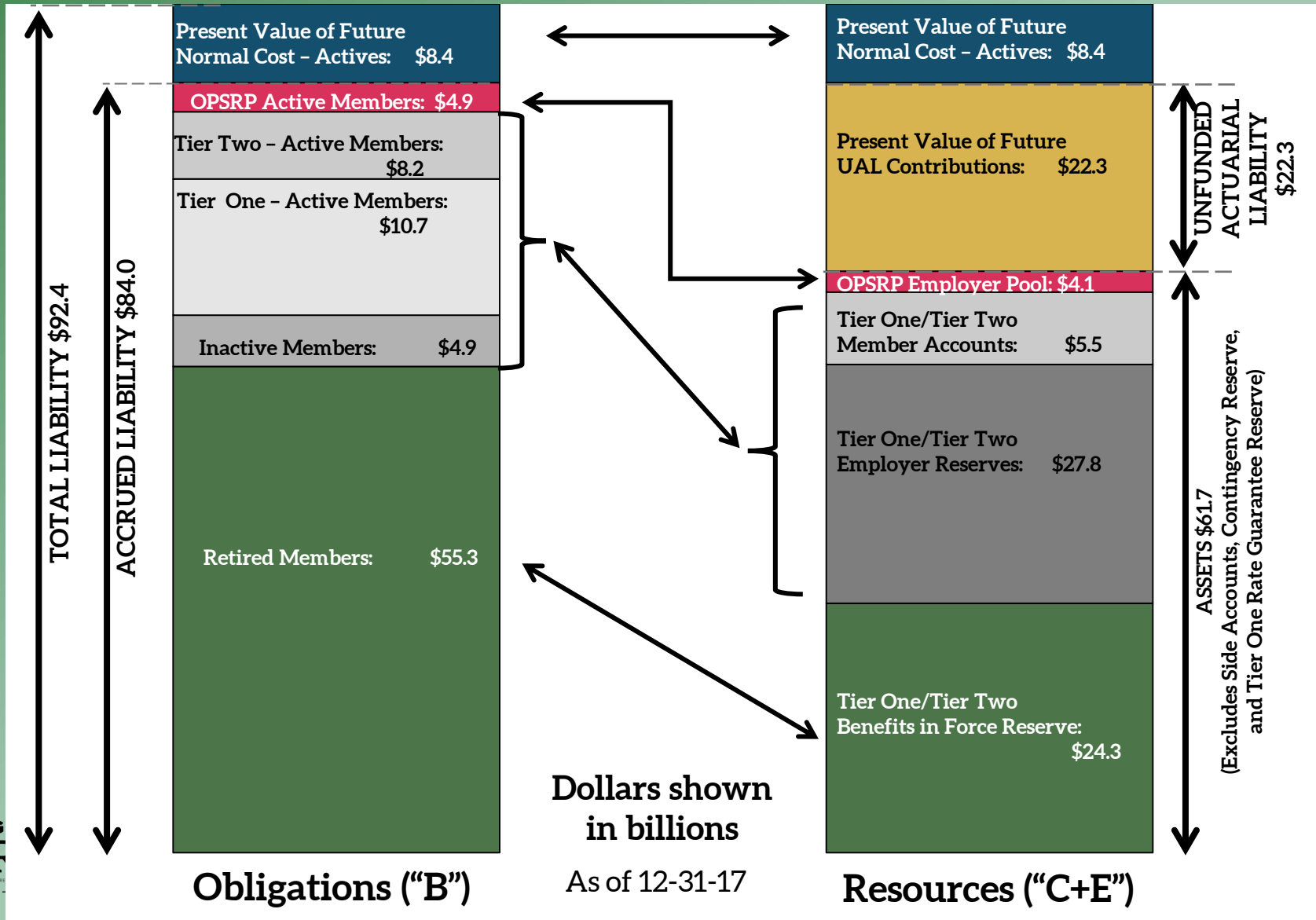
Set by:
Oregon Legislature

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.

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



Solving the Equation

When setting employer contribution rates, the PERS Board considers the following objectives and principles:

- 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.

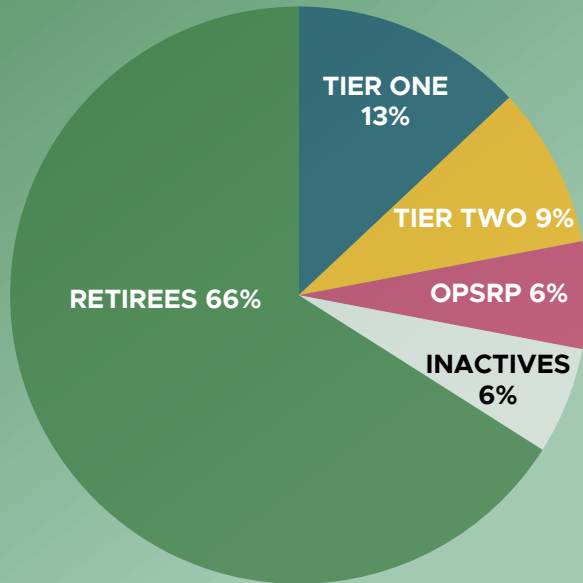
Overall system funding policies should seek an appropriate balance between conflicting objectives.

Funded Status and Unfunded Actuarial Liability (UAL)

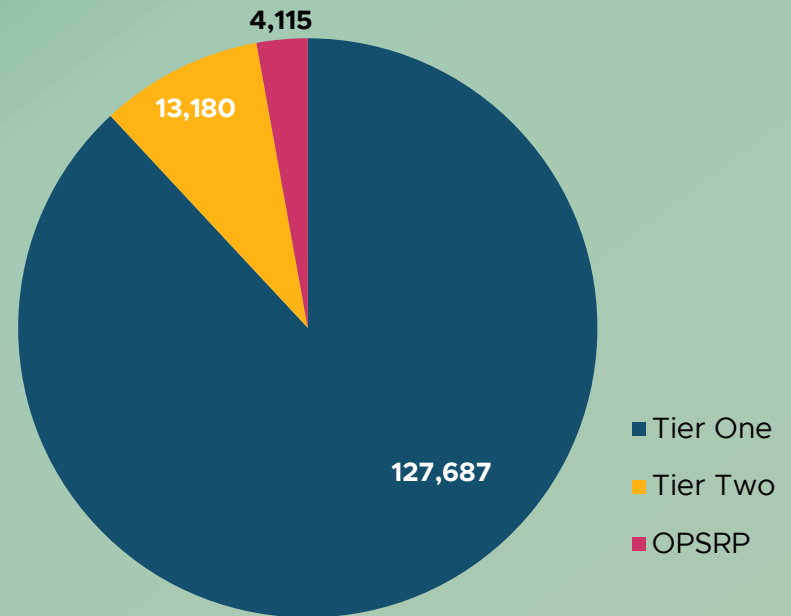
System-total Pension Funded Status (\$ billions)			
<i>Valuation date:</i>	12/31/2015	12/31/2016	12/31/2017
<i>Assumed return:</i>	7.50%	7.20%	7.20%
Actuarial liability	\$ 76.2	\$ 81.0	\$ 84.1
Assets (excluding side accounts)	<u>54.4</u>	<u>55.7</u>	<u>61.8</u>
UAL (excluding side accounts)	\$ 21.8	\$ 25.3	\$ 22.3
Funded status (excluding side accounts)	71%	69%	73%
Side account assets	<u>\$ 5.6</u>	<u>\$ 5.4</u>	<u>\$ 5.6</u>
UAL (including side accounts)	\$ 16.2	\$ 19.9	\$ 16.7
Funded status (including side accounts)	79%	75%	80%

Actuarial Accrued Liabilities (as of December 31, 2017)

Approximately 72 percent of PERS' total accrued liability is for members who are no longer working in PERS-covered employment (retired and inactive members).



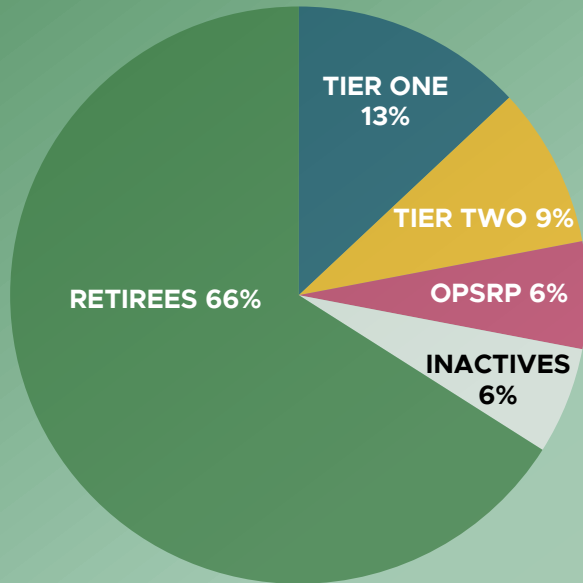
Actuarial Liability by
Member Category



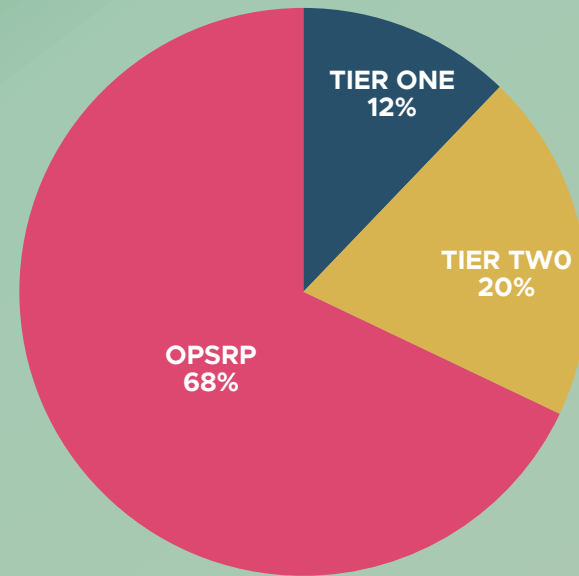
Current Retirees by membership group
(as of December 31, 2017)

Actuarial Accrued Liabilities

Although OPSRP members have 6% of accrued liability they make up 68% of the active working population.



Actuarial Liability by Member Category



Active Members by Tier (as of June 30, 2018)

Employer Contribution Rate Setting Cycle

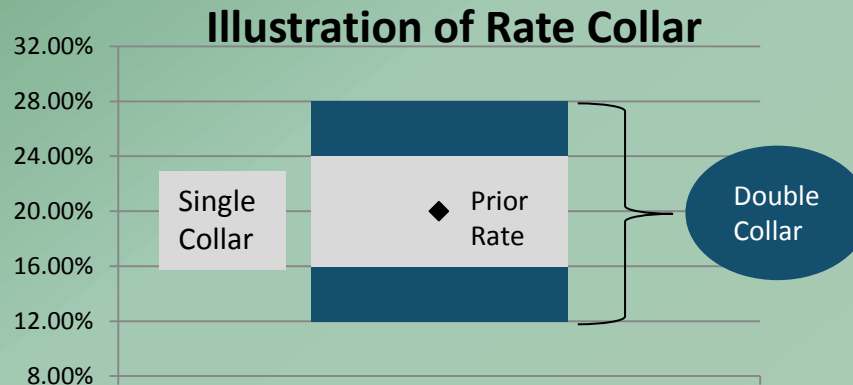
Actuarial valuations are conducted annually, but alternate between “advisory” and “rate setting”: e.g., the December 31, 2016, valuation results were used to project employer rates, but the December 31, 2017, valuation was used to set actual rates for the 2019-2021 biennium.

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
12/31/2015	July 2017 – June 2019
12/31/2017	July 2019 – June 2021
12/31/2019	July 2021 – June 2023

Current Rate Collar Design

- The maximum change typically permitted by the rate 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 rate collar doubles 40% of rate currently in effect (6% of payroll minimum collar width)
- If the funded status is between 60% and 70%, the rate collar's width is pro-rated between the single-collar and double-collar widths



- Collars limit the biennium to biennium increase in the UAL Rate for each individual employer (or pool, if an employer participates in one)

System-Wide Weighted Pension-Only Rates

Rates for 2009-2011 set prior to economic downturn

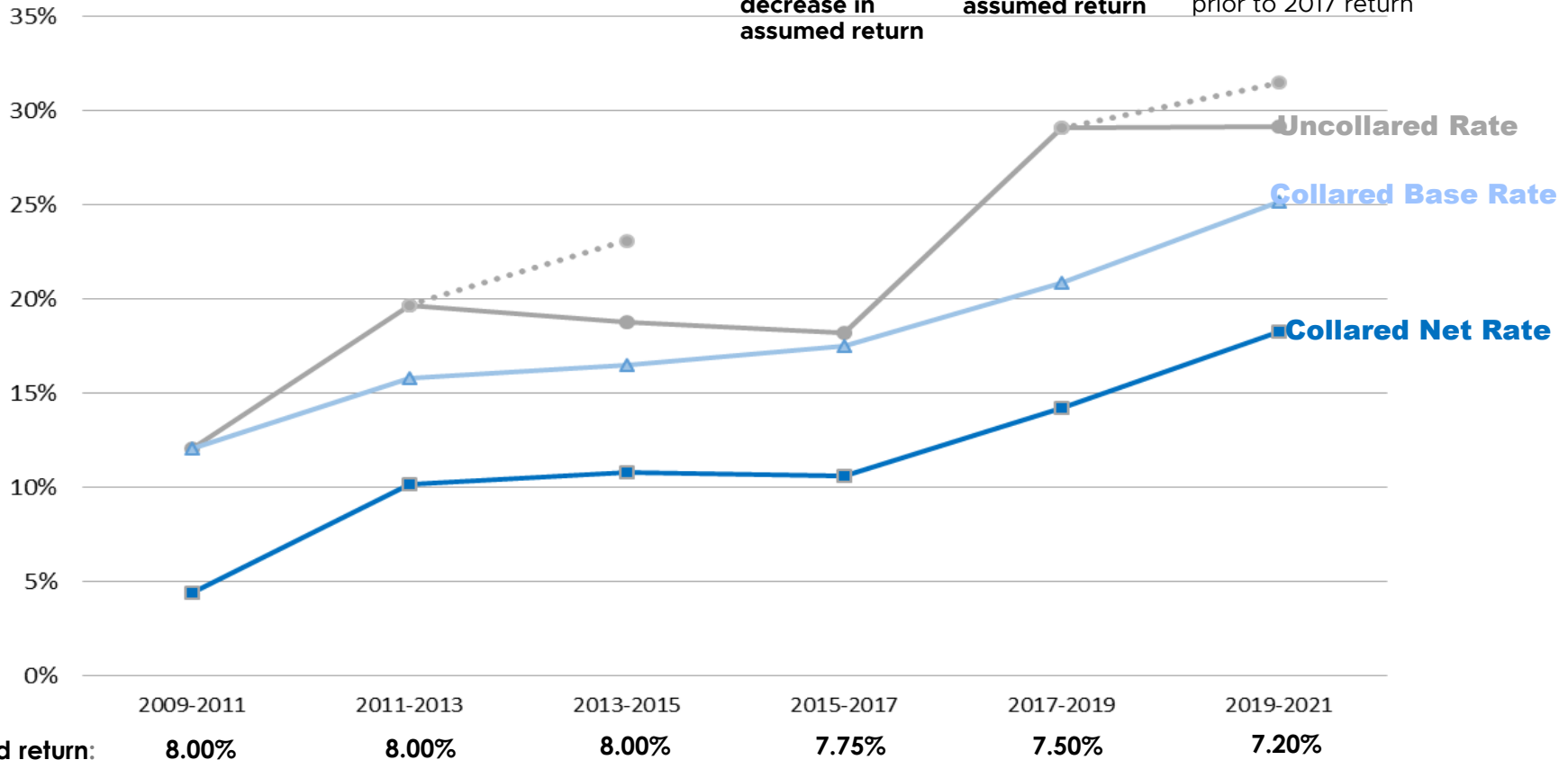
2011-2013 rates first to reflect -27% return in 2008

2013-2015 shown before (dotted line) and after (solid line) legislated changes

2015-2017 set pre-Moro reflecting 2012 (+14.3%) & 2013 (+15.6%) returns, first decrease in assumed return

2017-2019 set post-Moro, reflecting 2015 return (+2.1%) and second decrease in assumed return

2019-2021 reflects +15.4% return in 2017 and third decrease in assumed return; dotted line is advisory valuation's estimate prior to 2017 return



Collared Pension Net Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions

	12/31/2015 ¹ 2017 - 2019 Final			12/31/2017 ¹ 2019 – 2021 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ²	Tier 1 / Tier 2	OPSRP	Weighted Average ²
Collared Base Rate	24.13%	17.62%	20.85%	28.91%	22.56%	25.23%
Side Account (Offset)	(6.14%)	(6.14%)	(6.14%)	(6.51%)	(6.51%)	(6.51%)
SLGRP Charge/(Offset)	(0.48%)	(0.48%)	(0.48%)	(0.40%)	(0.40%)	(0.40%)
Collared Net Rate	17.51%	11.00%	14.23%	22.00%	15.65%	18.32%
Increase				4.49%	4.65%	4.09%

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

Changes in side account offsets are not collared

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 the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

Projected 2019-2021 Contributions

(\$ millions)	Projected 2017-19 Payroll*	(A) Projected 2017-19 Contribution	Projected 2019-21 Payroll*	(B) Projected 2019-21 Contribution	(B - A) Projected Contribution Increase
State Agencies	\$ 5,920	\$ 820	\$ 6,350	\$ 1,125	\$ 305
School Districts	6,630	925	7,100	1,300	375
All Others	<u>7,650</u>	<u>1,130</u>	<u>8,200</u>	<u>1,540</u>	<u>410</u>
Total	\$ 20,200	\$ 2,875	\$ 21,650	\$ 3,965	\$ 1,090

Collared net rates are used to project 2019-2021 contributions

The advisory valuation had a projected contribution increase of \$1,415 million, compared to a projected increase of \$1,090 million in this valuation

** Assumes payroll grows at 3.50% annually based on 12/31/2017 active member census. The collared net rate applied to this payroll reflects the proportional payroll composition (Tier 1/Tier 2 vs. OPSRP) as of the relevant rate-setting valuation dates.*

Employers...Planning for the Future

The Board approves Employer Contribution Rates on a biennial basis. They approved actual rates for the 2019-2021 biennium on October 5, 2018. In fall 2019, the Board will announce advisory rates for the 2021-2023 biennium.

Employers may influence their actual contribution rate if they choose to establish a “side account” with PERS. These accounts are considered assets of the system, but for the sole benefit of the employer who made the deposit.

We expect employer contribution rates to continue to climb in the future, and appreciate that PERS payments are a significant part of each employers’ budget, which will lead to challenging discussions and decisions.

Employers...Planning for the Future

PERS has created an interactive tool for employers to use to estimate their own potential contribution rates and amounts for planning purposes over the next several biennia. Employers may also use the tool to determine the potential impact of establishing side accounts.

<http://www.oregon.gov/pers/EMP/Pages/Employer-Rate-Projection-Tool.aspx>

Public Employees Retirement System / EMPLOYERS / Employer Rate Projection Tool

Employer Rate Projection Tool

PERS HOME

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SCHEDULES

By using PERS' Employer Rate Projection Tool, employers can estimate their own potential employer contribution rates and amounts for planning purposes over the next several biennia. Employers may also use the tool to determine the potential impact of establishing new side accounts.



The tool, an interactive Excel spreadsheet, is for planning purposes only and data will change each year based on actual experience.


You must download the .zip file to access the tool. We recommend using Microsoft Excel 2010 or later to use the tool. Some features might not work in older versions of Microsoft Excel. The tool will not work on Macintosh (Apple) versions of Excel.

Download an instructional document:

- [User Guide](#) 

Download the Employer Rate Projection Tool and supporting resources:

- [Employer Rate Projection Tool](#)  (Version 2.1 - uploaded 1/9/19) (download this .zip file to open the macro-enabled Excel tool)
- [Employer Rate Projection Tool - Data Inputs](#)  (includes December 31, 2017 Employer Valuation Payroll, 2017-2019 Current Employer Contribution Rates, and 2019-2021 Employer Contribution Rates)

Have questions about employer rates and contributions? Contact Actuarial.Services@PERS.state.or.us .

Employers...Planning for the Future

This is an example of Tualatin Valley Fire & Rescue data reflecting a hypothetical \$10 million side account. All data relevant to the tool are available on the tool website.

	A	B	C	D	E	F
1	Current Version: 2.1	Click Here for User Guide		Click Here for Data Inputs		
2						
3	Ready: Enter Data Below					
4	Enter December 31, 2017 Valuation Payroll			Enter Contribution Rates: 2017 - 2019		Enter Contribution Rates: 2019 - 2021
5	Tier 1/2 GS:	\$2,184,194.00		22.04%	Tier 1/2 GS	27.75%
6	Tier 1/2 PF:	\$29,061,508.00		22.04%	Tier 1/2 PF	27.75%
7						
8	OPSRP GS:	\$5,171,457.00		10.48%	OPSRP GS	15.68%
9	OPSRP PF:	\$25,213,603.00		15.25%	OPSRP PF	20.31%
10						
11	Total Valuation Payroll:	\$61,630,762.00				
12						
13	<i>Funding sources for <u>any</u> new side account deposits are not taken into consideration in these calculations.</i>			Additional Rate Components: 2019 - 2021		
14	(Optional) 7/1/2019 Side Account Deposit Estimated Amount:	\$10,000,000.00		Pre-SLGRP Pooled Liability Rate:		-1.68%
15	Calculate/Re-Calculate			Transition Liability/(Surplus) Rate:		-2.85%
16	Clear Entries			Side Account Rate Relief:		0.00%
17	Questions? Contact Actuarial.Services@pers.state.or.us			NOTE: Enter (Negative) % values using the minus sign Example: Enter (1.23%) as -1.23%		
18						

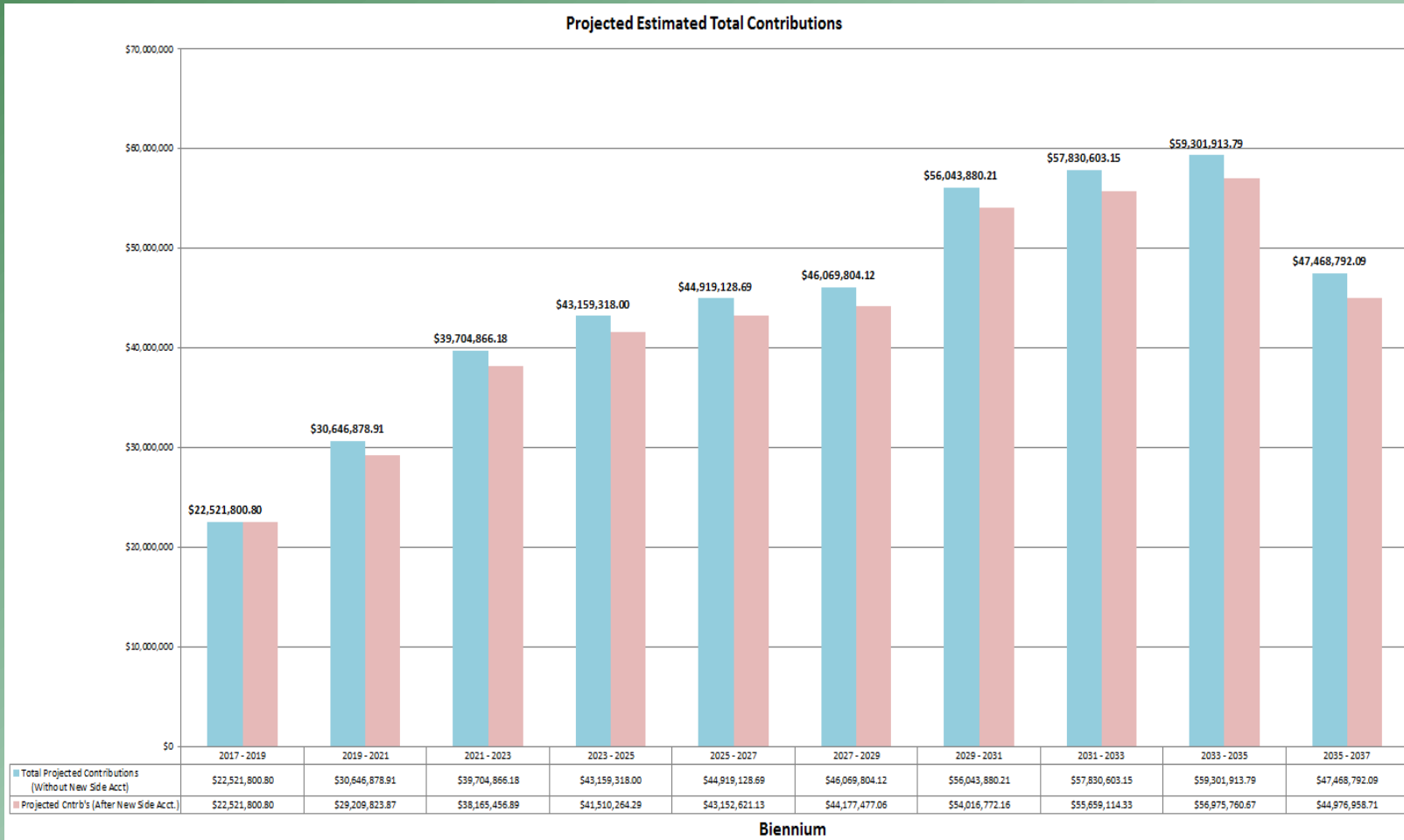
Employers...Planning for the Future

In the “Outputs” tab, the tool calculates projected payroll, contribution rates, contributions, and impact of potential side accounts.

	A	B	D	E	F	G	H	I	J	K	L	M	N
				Projected ER Rate Growth (at 7.20% Assumed Earnings Rate)									
1				3.38%	4.38%	5.41%	0.89%	-0.31%	-0.62%	-0.48%	-0.76%	-1.00%	-6.86%
2	Current Version: 2.1			2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029	2029 - 2031	2031 - 2033	2033 - 2035	2035 - 2037
3				Biennium									
6	December 31, 2017 Combined Valuation Payroll	\$61,630,762.00	Projected Payroll, Combined	\$123,297,996.31	\$132,079,896.10	\$141,487,286.70	\$151,564,718.69	\$162,359,915.78	\$173,924,000.78	\$186,311,737.74	\$199,581,791.26	\$213,797,004.34	\$229,024,695.98
9	(Optional) 7/1/2019 Side Account Deposit Estimated Amount	\$10,000,000.00	Assumed Net Annual Wage Growth = 3.50%										
10	Side Account Rate Relief	0.00%	Eff: 7/1/19, Rate Ends: 2029										
11	Pre-SLGRP Pooled Liability Rate	-1.68%	Eff: 7/1/19, Rate Ends: 2029										
12	Transition Liability/(Surplus) Rate	-2.85%	Eff: 7/1/19, Rate Ends: 2029										
13	Valuation Payroll		Projected Payroll	\$4,313,164.56	\$3,881,848.10	\$3,493,663.29	\$2,969,613.80	\$2,524,171.73	\$2,145,545.97	\$1,716,436.78	\$1,287,327.58	\$901,129.31	\$585,734.05
18	Tier One / Tier Two General Service	\$2,184,194.00	Projected Contribution Rates	22.04%	27.75%	33.16%	34.05%	33.74%	33.12%	37.17%	36.41%	35.41%	28.55%
19			Projected Contributions (w/o New Side Account)	\$ 950,621.47	\$ 1,077,212.85	\$ 1,158,498.75	\$ 1,011,153.50	\$ 851,655.54	\$ 710,604.83	\$ 637,999.55	\$ 468,715.97	\$ 319,089.89	\$ 167,227.07
26			Projected Additional Side Account Rate Offset	n/a	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%
27			Projected Contributions (After New Side Account)	\$950,621.47	\$1,034,977.58	\$1,120,487.01	\$978,843.52	\$824,192.06	\$687,260.87	\$619,324.38	\$454,709.60	\$309,285.43	\$160,854.17
29	Valuation Payroll		Projected Payroll	\$57,764,230.98	\$54,876,019.43	\$49,388,417.48	\$44,449,575.74	\$37,782,139.38	\$28,336,604.53	\$19,835,623.17	\$12,893,155.06	\$7,735,893.04	\$4,254,741.17
34	Tier One / Tier Two Police/Fire	\$29,061,508.00	Projected Contribution Rates	22.04%	27.75%	33.16%	34.05%	33.74%	33.12%	37.17%	36.41%	35.41%	28.55%
35			Projected Contributions (w/o New Side Account)	\$ 12,731,236.51	\$ 15,228,095.39	\$ 16,377,199.24	\$ 15,135,080.54	\$ 12,747,693.83	\$ 9,385,083.42	\$ 7,372,901.13	\$ 4,694,397.76	\$ 2,739,279.72	\$ 1,214,728.60
42			Projected Additional Side Account Rate Offset	n/a	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%
43			Projected Contributions (After New Side Account)	\$12,731,236.51	\$14,631,033.59	\$15,839,843.62	\$14,651,460.48	\$12,336,616.78	\$9,076,775.64	\$7,157,085.68	\$4,554,117.72	\$2,655,111.70	\$1,168,436.19
45	Valuation Payroll		Projected Payroll	\$10,402,490.42	\$11,881,929.41	\$13,392,889.27	\$15,119,683.47	\$16,853,535.74	\$18,612,338.71	\$20,519,928.24	\$22,532,822.53	\$24,615,611.00	\$26,748,436.08
50	OPSRP General Service	\$5,171,457.00	Projected Contribution Rates	10.48%	15.68%	21.09%	21.98%	21.67%	21.05%	25.10%	24.34%	23.34%	16.48%
51			Projected Contributions (w/o New Side Account)	\$ 1,090,181.00	\$ 1,863,086.53	\$ 2,824,560.35	\$ 3,323,306.43	\$ 3,652,161.19	\$ 3,917,897.30	\$ 5,150,501.99	\$ 5,484,489.00	\$ 5,745,283.61	\$ 4,408,142.27
58			Projected Additional Side Account Rate Offset	n/a	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%
59			Projected Contributions (After New Side Account)	\$1,090,181.00	\$1,733,808.82	\$2,678,843.10	\$3,158,801.32	\$3,468,791.44	\$3,715,391.42	\$4,927,241.17	\$5,239,327.50	\$5,477,460.96	\$4,117,114.06
61	Valuation Payroll		Projected Payroll	\$50,818,110.35	\$61,440,099.16	\$75,212,316.65	\$89,025,845.69	\$105,200,068.94	\$124,829,511.57	\$144,239,749.55	\$162,868,486.08	\$180,544,371.00	\$197,435,784.67
66	OPSRP Police/Fire	\$25,213,603.00	Projected Contribution Rates	15.25%	20.31%	25.72%	26.61%	26.30%	25.68%	29.73%	28.97%	27.97%	21.11%
67			Projected Contributions (w/o New Side Account)	\$ 7,749,761.83	\$ 12,478,484.14	\$ 19,344,607.84	\$ 23,689,777.54	\$ 27,667,618.13	\$ 32,056,218.57	\$ 42,882,477.54	\$ 47,183,000.42	\$ 50,498,260.57	\$ 41,678,694.14
74			Projected Additional Side Account Rate Offset	n/a	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%	-1.09%
75			Projected Contributions (After New Side Account)	\$7,749,761.83	\$11,810,003.87	\$18,526,283.16	\$22,721,158.97	\$26,523,020.86	\$30,698,049.13	\$41,313,120.93	\$45,410,959.52	\$48,533,902.59	\$39,530,554.29
77			Projected Payroll, Combined	\$123,297,996.31	\$132,079,896.10	\$141,487,286.70	\$151,564,718.69	\$162,359,915.78	\$173,924,000.78	\$186,311,737.74	\$199,581,791.26	\$213,797,004.34	\$229,024,695.98
78			Total Projected Contributions (Without New Side Acct)	\$22,521,800.80	\$30,646,878.91	\$39,704,866.18	\$43,159,318.00	\$44,919,128.69	\$46,069,804.12	\$56,043,880.21	\$57,830,603.15	\$59,301,913.79	\$47,468,792.09
82	Cumulative Contribution Reduction From New Side Account:	\$17,300,936.02	Total Projected Contributions (After New Side Acct)	\$22,521,800.80	\$29,209,823.87	\$38,165,456.89	\$41,510,264.29	\$43,152,621.13	\$44,177,477.06	\$54,016,772.16	\$55,659,114.33	\$56,975,760.67	\$44,976,958.71

Employers...Planning for the Future

Employers may also see a graphical representation of the impact of potential side accounts.



Senate Bill 1566 (2018)

- Establishes the ***Employer Incentive Fund (EIF)*** separate and distinct from the General Fund; employers may apply for up to a 25% match of their lump-sum payment. Funding expected in July 2021, through repatriation off-shore funds (SB 1529)
 - Establishes the UAL Resolution Program to provide technical expertise to improve employers' funded status
-
- PERS Actions:
 - Board adopted rules to administer the EIF
 - Surveyed employers to determine interest in the EIF, potential deposits for EIF match and content of the UAL Resolution Program
 - Created communication plan to advise employers of next steps
 - Established EIF with Treasury and determined process with other agencies to establish transfer protocols and timing

Senate Bill 1566

- Establishes the ***School District Unfunded Liability Fund*** separate and distinct from the General Fund; creates a side account for the school district pool funded by interest from unclaimed property and excesses from debt collection, capital gains taxes, estate taxes and the repatriation of taxes
 - Allows employers making a lump-sum payment equal to or greater than \$10M to select an amortization schedule of 6, 10, 16 or 20 years
-
- PERS Actions:
 - Board adopted rules to administer the Fund
 - Surveyed School Districts to learn of their preferred amortization period (response of a 20-year preference)
 - Created a communication plan to advise the School Districts of next steps
 - Determined process with other agencies to establish revenue amounts, transfer protocols and timing



Thank You

Kevin Olineck
PERS Director
January 18, 2019