

# **PERS Update**

**A presentation to  
Oregon Business Plan Leadership Summit**

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# 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:

$$B = C + E$$

$$\text{BENEFITS} = \text{CONTRIBUTIONS} + \text{EARNINGS}$$

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.

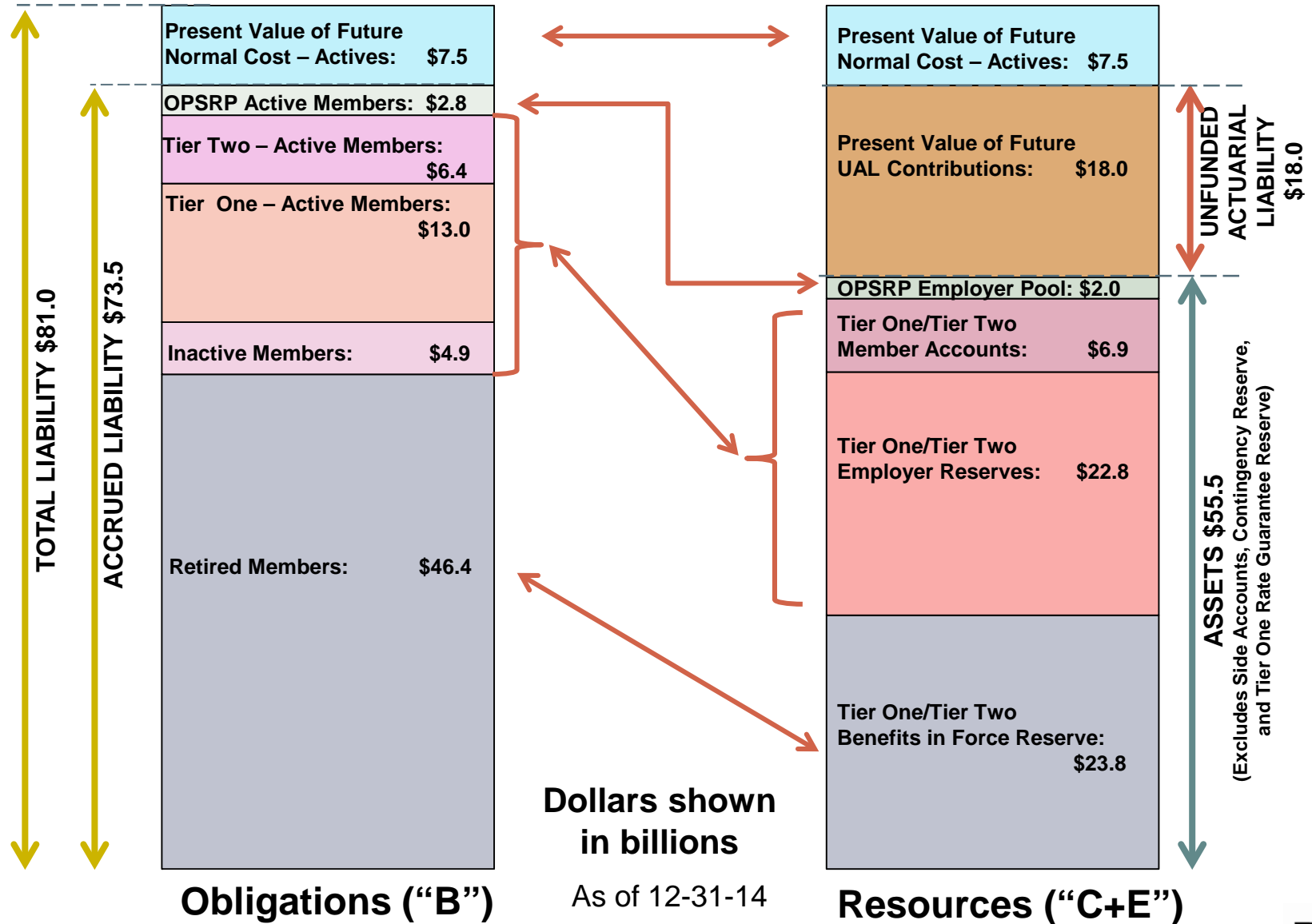
# Solving the Equation . . .

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.*

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



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

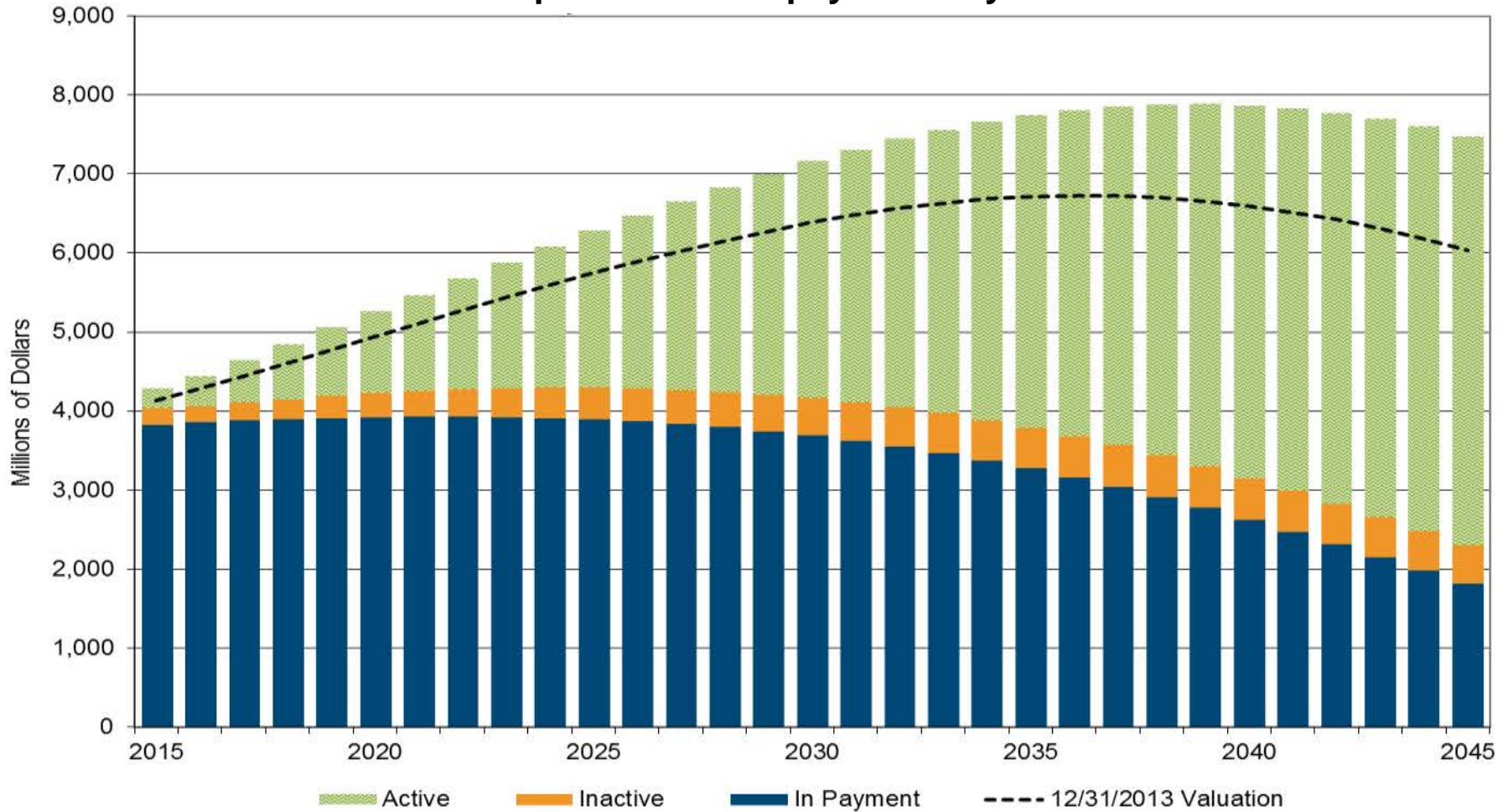
	12/31/2013	12/31/2014
Actuarial liability	\$62.6	\$73.5
Assets (excluding side accounts)	<u>\$54.1</u>	<u>\$55.5</u>
UAL (excluding side accounts)	\$ 8.5	\$18.0
Funded status (excluding side accounts)	86%	76%

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

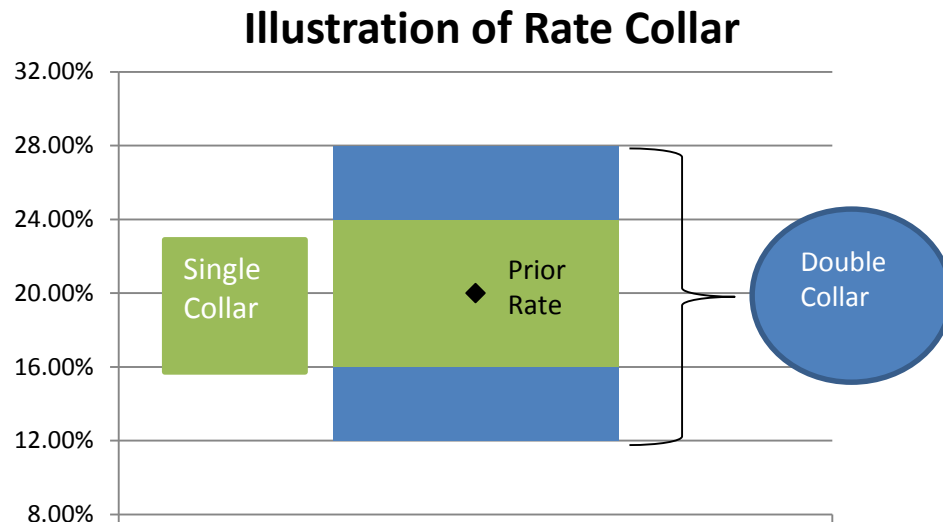
Excludes Retiree Health Care, IAP Contributions, Side Accounts

	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



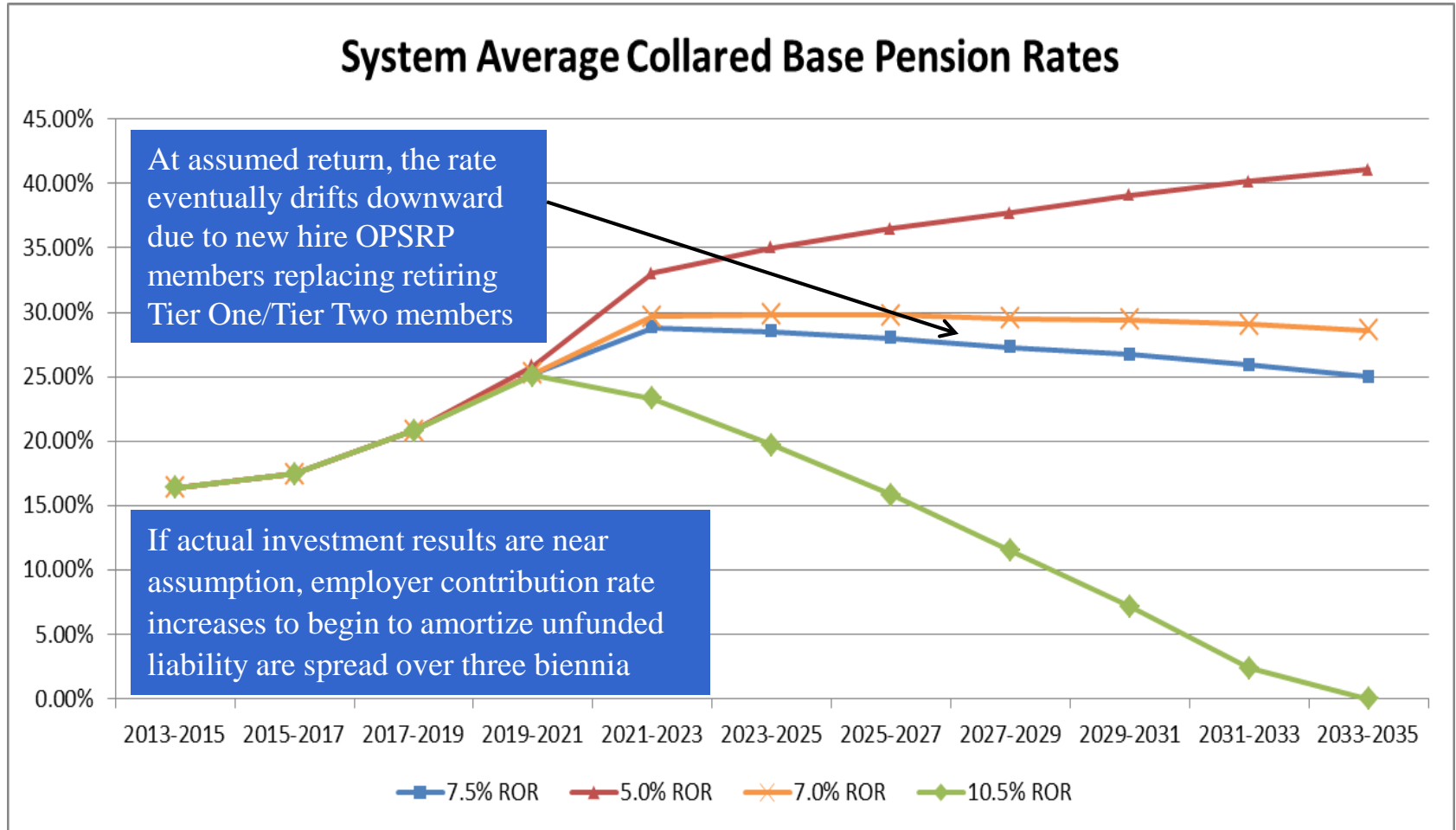
# 2017-19 Contribution Increase Estimates

(\$ 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

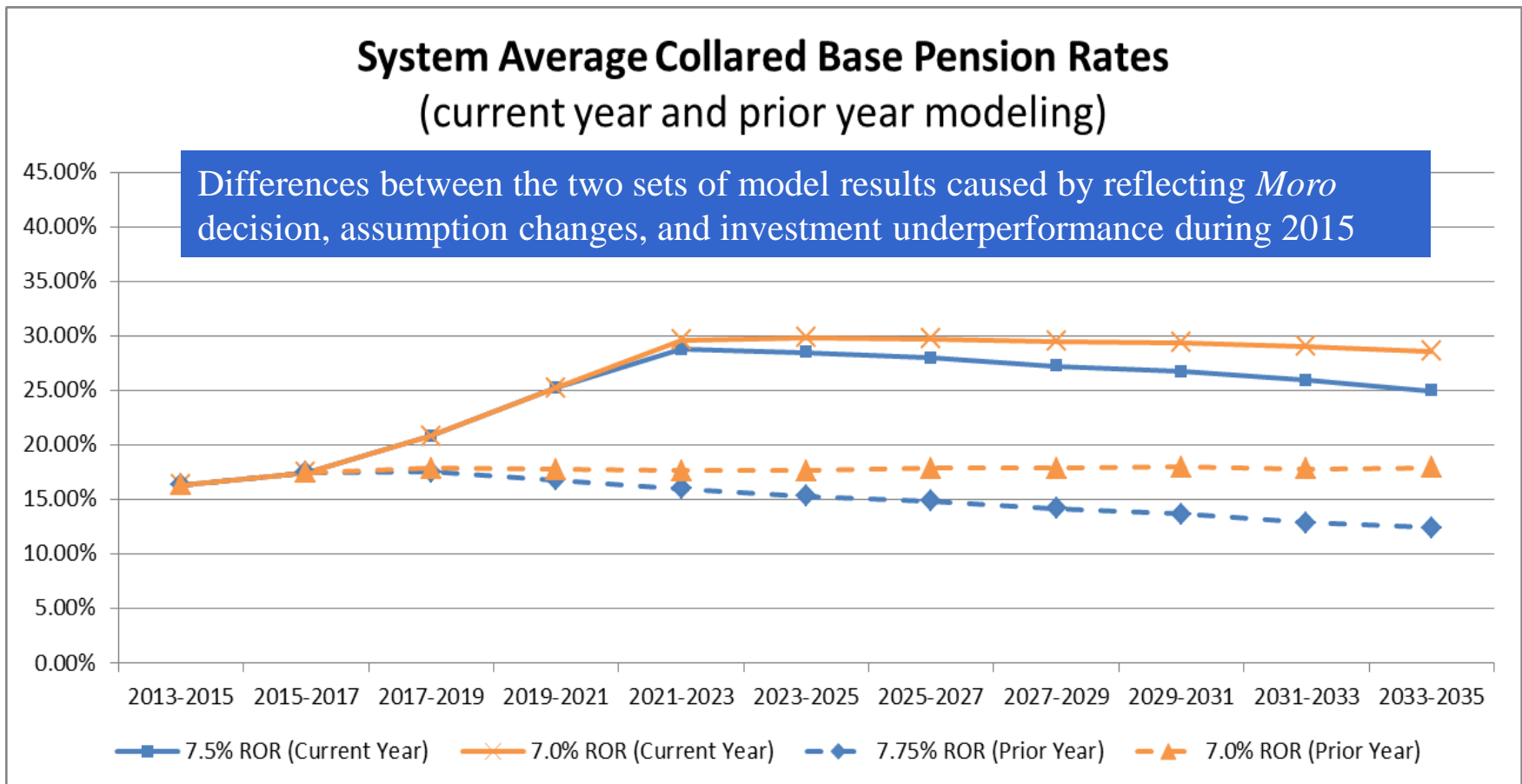
# Steady Return Model Projections



The steady rate model illustrates impact of consistently achieving the assumed 7.50% return and three alternative returns

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# Steady Return Model Projections

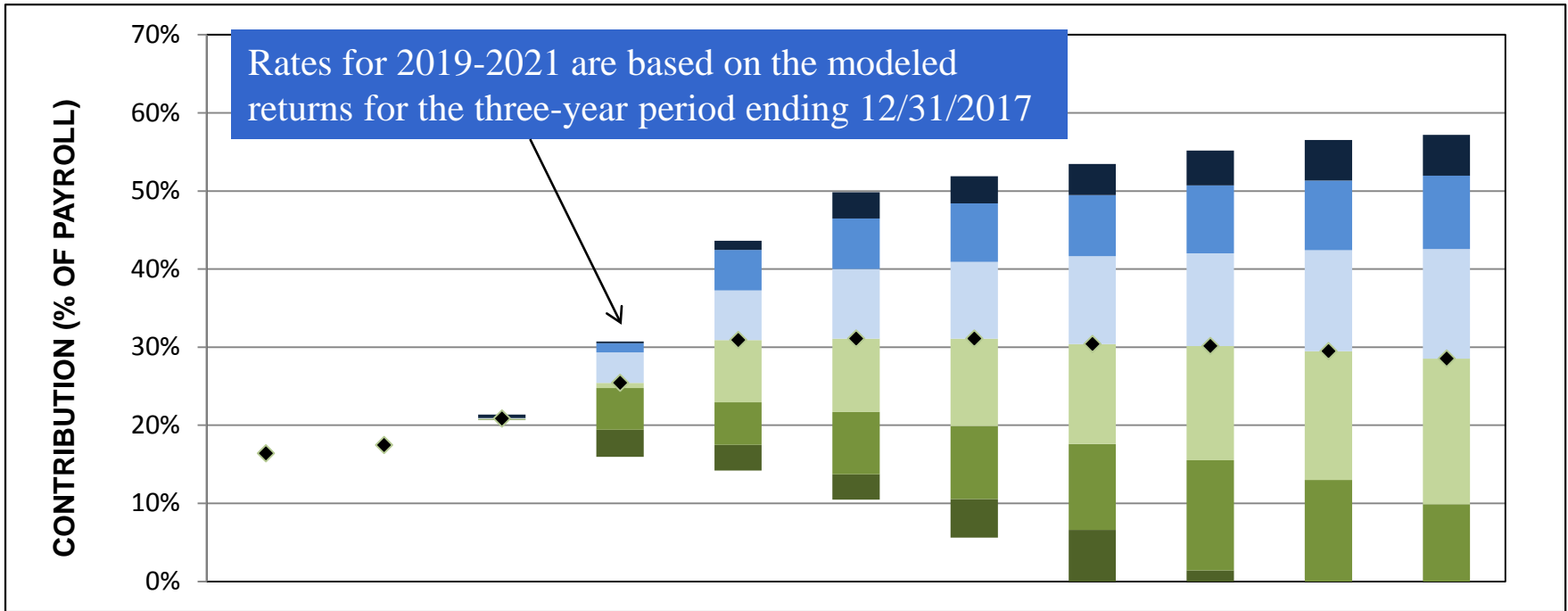


- Current year: reflects *Moro* decision, 12/31/2014 valuation, and investment results through October 2015
- Prior year: pre-*Moro*, 12/31/2013 valuation, and investment results through October 2014

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# Collared System Average Base Contribution Rates

“Base” rates are system average Tier One/Tier Two/OPSRP contribution rates excluding IAP contributions, the effect of side accounts & pension obligation bond debt service, and contributions to the retiree healthcare programs

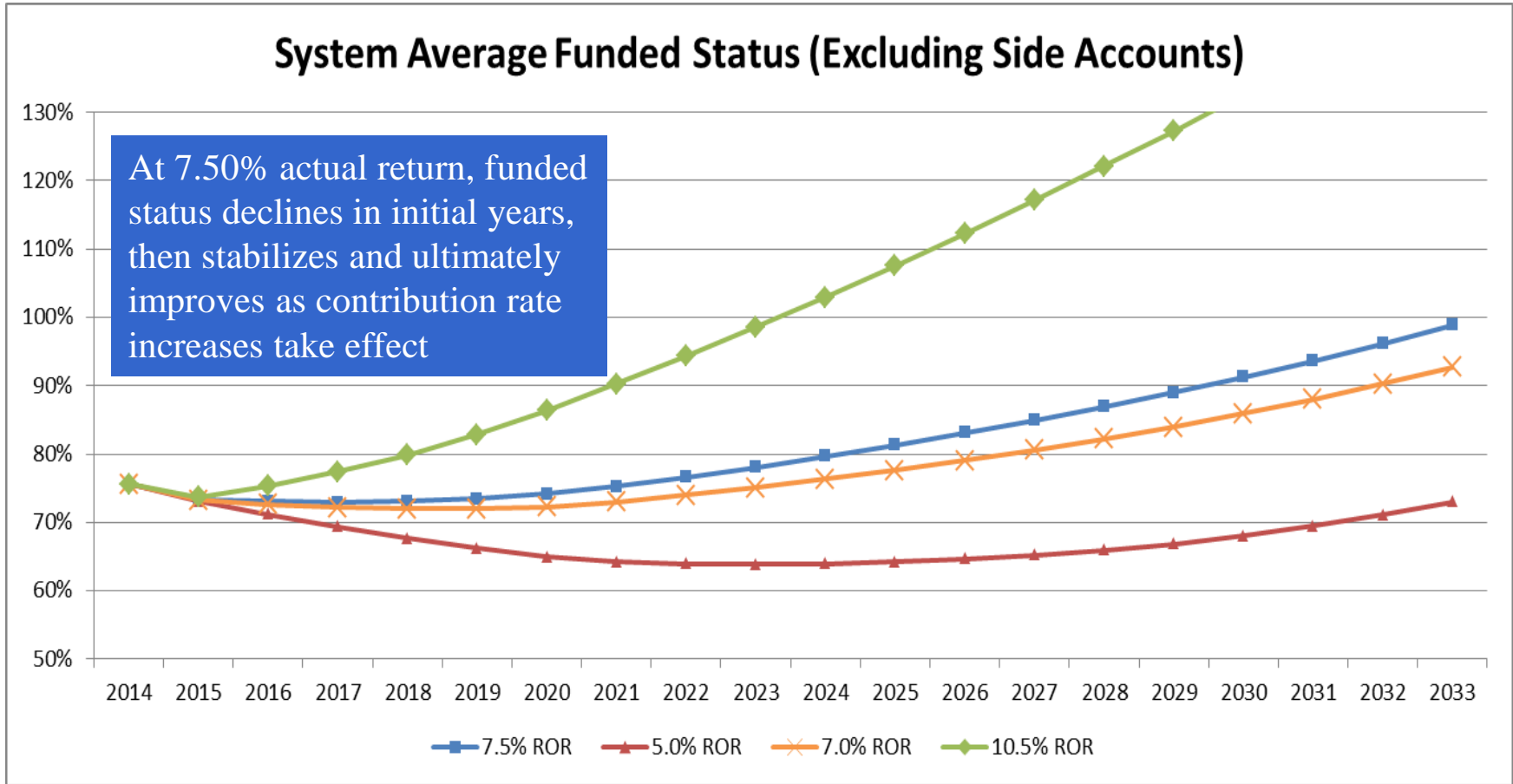


Biennium		2013-2015	2015-2017	2017-2019	2019-2021	2021-2023	2023-2025	2025-2027	2027-2029	2029-2031	2031-2033	2033-2035
5th		16.4%	17.5%	21.4%	30.7%	43.6%	49.9%	51.9%	53.5%	55.2%	56.5%	57.2%
10th		16.4%	17.5%	20.9%	30.5%	42.4%	46.5%	48.4%	49.5%	50.7%	51.3%	52.0%
25th		16.4%	17.5%	20.9%	29.3%	37.2%	40.0%	40.9%	41.7%	42.0%	42.4%	42.6%
50th		16.4%	17.5%	20.8%	25.4%	30.9%	31.1%	31.1%	30.4%	30.1%	29.5%	28.5%
75th		16.4%	17.5%	20.8%	24.8%	22.9%	21.7%	19.9%	17.6%	15.5%	13.0%	9.9%
90th		16.4%	17.5%	20.7%	19.4%	17.5%	13.7%	10.6%	6.6%	1.4%	0.0%	0.0%
95th		16.4%	17.5%	20.7%	16.0%	14.2%	10.5%	5.6%	0.0%	0.0%	0.0%	0.0%

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# Steady Return Model Projections

Funded status reaches 100% in 2033 when actual investment returns equal 7.50%



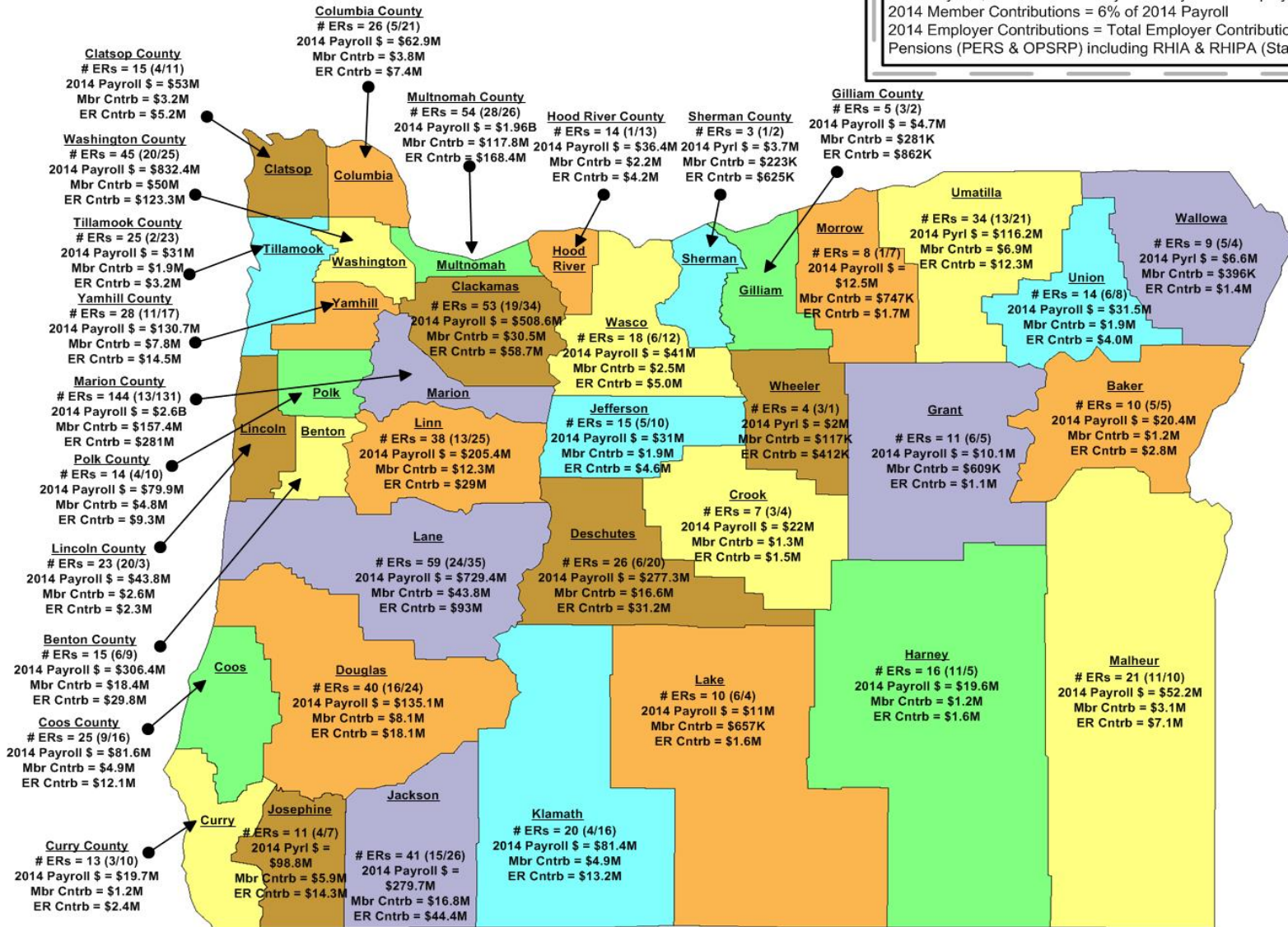
Shows projected funded status under steady return projections

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# PERS Employer Profile by County in 2014

## LEGEND

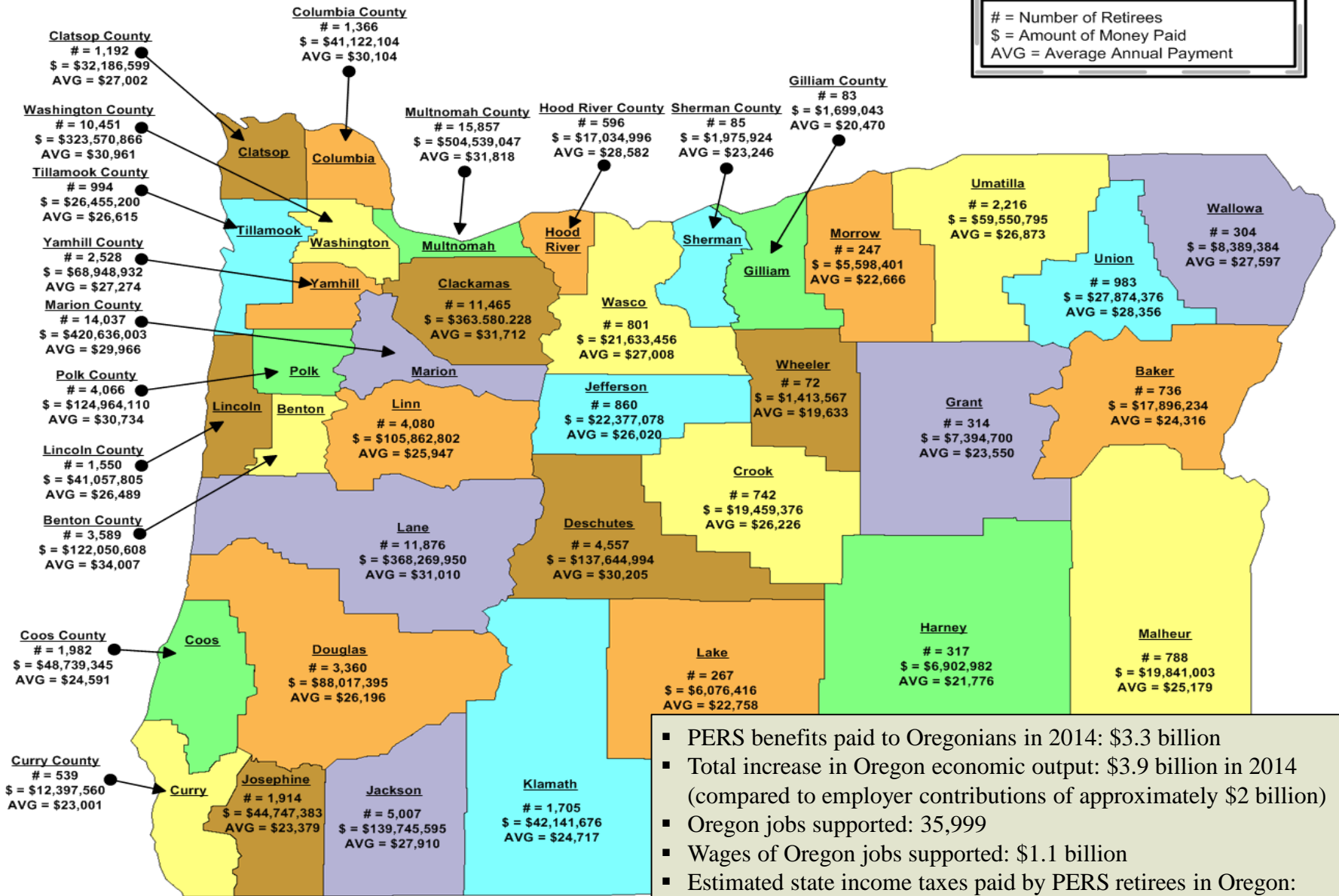
# Employers = Total Employers (School Districts/All Other Employers)  
 2014 Payroll \$ = Cumulative Subject Salary for All Employers Within the County  
 2014 Member Contributions = 6% of 2014 Payroll  
 2014 Employer Contributions = Total Employer Contributions Paid in 2014 for Pensions (PERS & OPSRP)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



# Total PERS Benefit Payments by County in 2014

## LEGEND

# = Number of Retirees  
 \$ = Amount of Money Paid  
 AVG = Average Annual Payment



- PERS benefits paid to Oregonians in 2014: \$3.3 billion
- Total increase in Oregon economic output: \$3.9 billion in 2014 (compared to employer contributions of approximately \$2 billion)
- Oregon jobs supported: 35,999
- Wages of Oregon jobs supported: \$1.1 billion
- Estimated state income taxes paid by PERS retirees in Oregon: \$171.7 million