

Oregon PERS

Impact of 2013 Legislative Reforms and Implications for Multnomah County

Finance & Risk Management

April 15, 2014

Agenda

- *Overview of PERS*
- *What Did the 2013 Legislature Do?*
 - *Regular Session (SB 822)*
 - *Special Session (SB 861)*
- *Impact on Rates Charged to Employers*
 - *Results of 12/31/2012 Valuation*
- *What Can We Do?*
 - *Discussion of “Side Accounts”*
- *GASB 68*
 - *Requires Financial Reporting of Unfunded Liability*



Overview of PERS

- *OR Public Employees Retirement System (PERS) is a Cost Sharing, Multi-Employer Defined Benefit Pension Plan*
 - *Administered by 5 member Board, appointed by Governor*
 - *Funds managed by Oregon Investment Council (OIC)*
- *Created by Legislature in 1945*
 - *County Has Been a Member Since 1982*
- *More Than 900 Participating Employers*
 - *Covers 95% of Public Service Workers in Oregon*
 - *Employers Grouped Into 4 Pools – County Belongs to State Local Government Rate Pool (SLGRP)*



PERS Benefit Programs

PERS Maintains 3 Distinct Retirement Programs

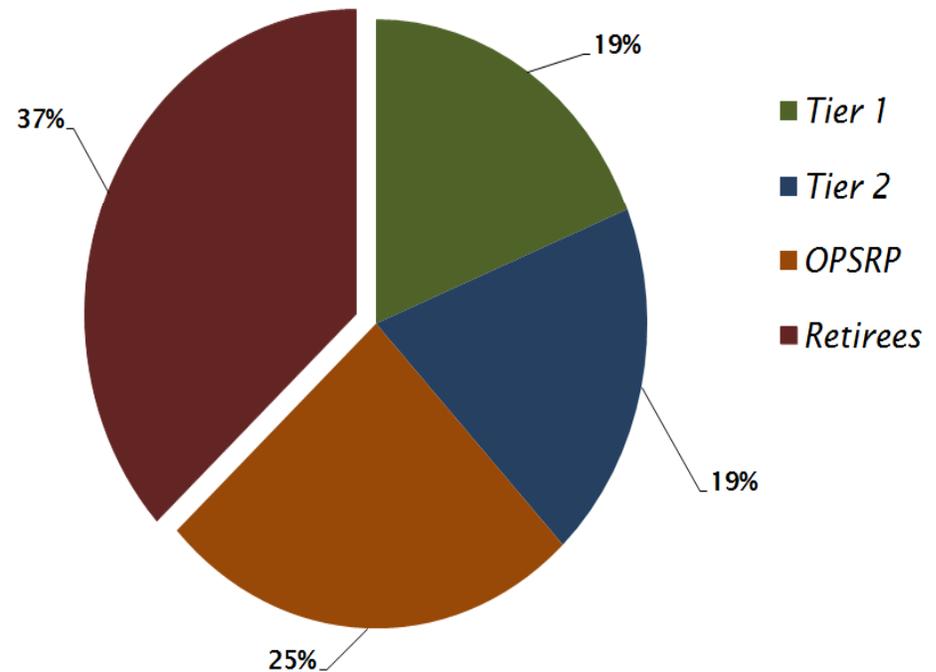
Tier 1 – Employees Hired Prior to 1/1/1996

Tier 2 – Employees Hired Between 1996 and 8/2003

OR Public Service Retirement Program (OPSRP) – Since 9/2003

Member Contributions Directed to Individual Account Program (IAP) After 1/2004

PERS Beneficiaries by Status
(Includes Employees in Inactive Status)



Benefit Comparison

	Tier 1	Tier 2	OPSRP
Normal Retirement Age			
General Service	58 (or 30 Years)	60 (or 30 Years)	65 (or 58 w/ 30 Years)
Uniformed (Police/Fire)	55 (or 50 w/ 25 Years)	55 (or 50 w/ 25 Years)	60 (or 53 w/ 25 Years)
Regular Account Earnings	Guaranteed 8% per Year	Market Returns	Market Returns
Variable Account Earnings	Market Returns	Market Returns	N/A
Retirement Calculation Methods	Money Match Full Formula	Money Match Full Formula	Full Formula Only
Full Formula Benefit Factor			
General Service	1.67% x Years of Service	1.67% x Years of Service	1.50% x Years of Service
Uniformed (Police/Fire)	2.00% x Years of Service	2.00% x Years of Service	1.80% x Years of Service
OR Income Tax Remedy	Limited - 2013 Change	No	No
Vacation Payout			
Included in Covered Salary	Yes	Yes	No
Included in Final Avg Salary (FAS)	Yes	No	No
6% "Pick Up" Included in FAS	Yes	No	No



Benefit Calculation

- *Earnings Credited to Member Accounts*
 - *Primarily Important for “Money Match” Option*
- *Multiple Payment Options for Tier 1/Tier 2*
 - *OPSRP Retirees Receive Fixed Monthly Payments*
- *COLA Applied Annually*
 - *Significant Changes to COLAs in 2013*
- *Example (Using Full Formula Method)*
 - Final Average Salary = \$60,000 (\$5,000 per Month)*
 - Years of Service = 30 x 1.67 (Service Credit)*
 - Monthly Benefit = \$2,505*
- *PERS Benefit Generally Designed to Provide 45% - 50% of Final Average Salary*



2012 PERS Replacement Ratio Study

- *Average Age at Retirement – 59*
 - *Average Years of Service - 22*

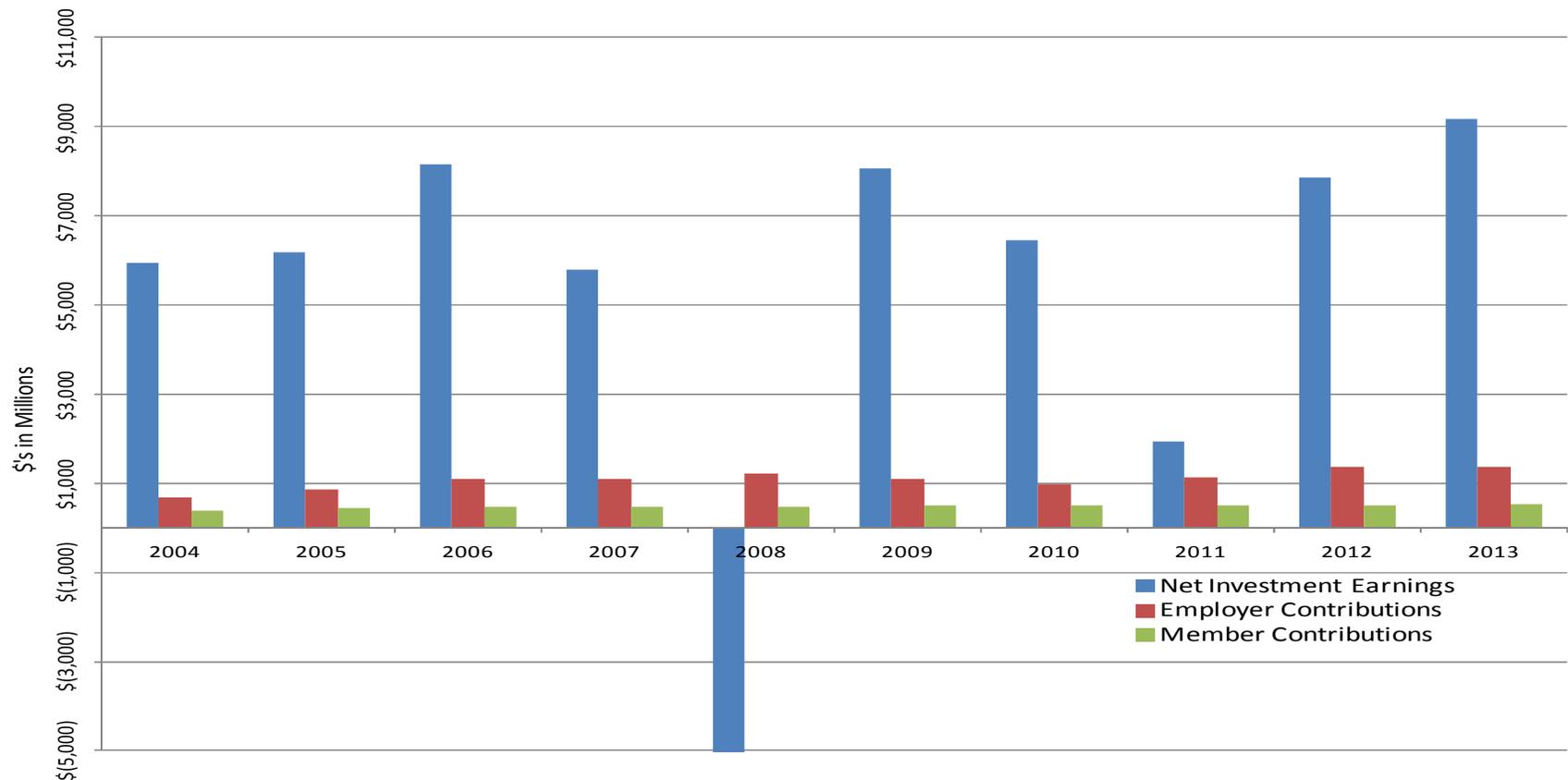
- *Average Final Salary at Retirement - \$61,931*
 - *Average Monthly Retirement Benefit - \$2,436 (\$29,235)*
 - *Average Annual Retirement = 50% of Final Salary*

- *Retirees w/ 30 Years of Service*
 - *6.64% Have 30 or More Years of Service*
 - *Average Monthly Retirement Benefit - \$3,897 (\$46,764)*
 - *Average Annual Retirement = 70% of Final Salary*
 - *4.3% of Retirees Receive Annual Benefit > 100% of Final Salary*



How Is PERS Funded?

- *Investment Earnings*
- *Employer Contributions*
- *Member Contributions (Mostly Employer Paid via “Pick-Up”)*



2013 Legislative Changes

- *SB 822 – Approved in 2013 Regular Session*
 - *Provided a COLA Limit of 1.5% in 2013, Graduated by Benefit Level After 2013*
- *Eliminated “Tax Remedy” Payments for Non-Oregon Resident Retirees*
- *Reduced Unfunded Liability by \$3.2 Billion*
 - *Average Rate Reduction = 2.5% of Payroll*
- *PERS Board “Collared” an Additional 1.9% Rate Increase.*
 - *Total Average Rate Reduction = 4.4% of Payroll*



2013 Legislative Changes (Cont.)

- *SB 861 - Passed in Special Session*
 - *Limited COLAs Further Than SB 822*
- *“Base” COLA = 1.5% Annually*
 - *Limited to 1.25% on First \$60,000 of Benefits and 0.15% on Amounts > \$60,000*
- *Supplemental Annual Payments = 0.25%*
 - *Cannot Exceed \$150 Annually*
 - *Second .25% Supplemental Payment if Benefits < \$20,000*
- *Employer Rates Reduced 4.4% On Average*
 - *Rates Can Not Be Lower Than Preceding Biennium*



Other Changes

- *PERS Board Adopted Rules That Impact the Unfunded Actuarial Liability (UAL)*
- *Changed Assumed Earnings Rate From 8% to 7.75%*
 - *Increase in UAL*
- *Changed Actuarial Allocation to Comply w/ GASB Rules*
 - *Increase in UAL*
- *Re-Amortized UAL Over 20 Year Period Beginning 1/1/13*
 - *Slightly Lowers Rate of UAL Growth*



Legal Challenges

- *Legal Challenges to SB 822 and SB 861 Have Been Filed*
 - *Bypass Circuit Court, Directly to Supreme Court*
- *Timeline*
 - *April – Special Master Hearing*
 - *May – Special Master Reports to Supreme Court*
 - *Fall - Court Will Hear Oral Arguments*
- *Decision Could Take Awhile, Expectation is Cases Will be Decided in Time to Inform 2017-19 Rates*

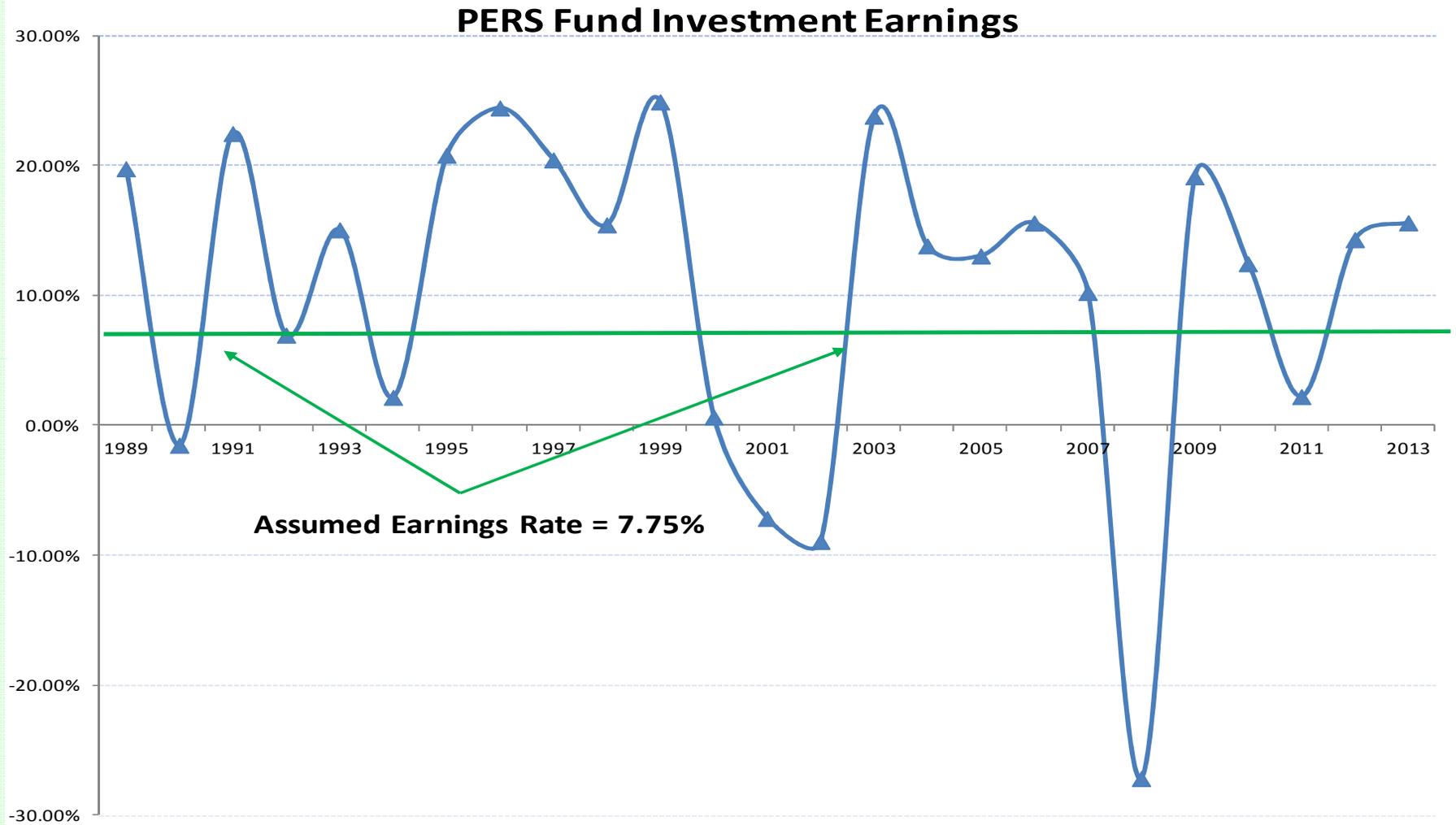


Impact on Employer Rates

- *Rates Reduced by 4.4% of Payroll*
 - *Multnomah County Rate For 2013-15 Biennium Same as in 2011-13 Biennium*
- *Total UAL Reduced 50% From 2011 Valuation*
 - *2011 = \$16.3B, 2013 = \$8.1B*
- *System Funding Increased to 87% (Up From 73%)*
- *However, Rates Will Go Up Again in 2015-17*
 - *Due to Impacts Associated w/ Previous Rate Deferrals*
 - *Anticipate Increase of 2.2% of Payroll*
 - *2013 Valuation Released in Summer, Will Set Rates for 7/1/2015*



Investment Earnings



Impact on Multnomah County

	2007	2009	2011	2012
Allocated Pooled SLGRP T1/T2 UAL	\$ 12,008,083	\$ 361,583,792	\$ 437,382,026	\$ 283,470,055
Allocated Pre-SLGRP Pooled Liability/(Surplus)	(59,722,713)	(57,369,591)	(55,985,549)	(54,859,118)
Transition Liability/(Surplus)	(97,558,005)	(96,284,817)	(94,261,953)	(93,023,540)
Allocated Pooled OPSRP UAL	(2,287,628)	2,832,568	4,681,346	19,513,971
Net Unfunded Liability (UAL)	\$(147,560,263)	\$ 210,761,952	\$ 291,815,870	\$ 155,101,368
T1/T2 Net Employer Rate	7.41%	11.85%	16.26%	11.86%
Change From Previous Valuation	-3.64%	4.44%	4.41%	-4.40%

Notes:

The "T1/T2 Net Employer Rate" does not include 6% employer "pick-up" or cost of PERS Bonds issued in 1999.

Approximately one-third of the "T1/T2 Net Employer Rate" attributable to UAL.



Some Thoughts About the UAL

- *Legislative Actions and Investment Earnings Have Strengthened System Funding*
 - *PERS System Estimated 2013 Funding at 87% (With “Side Accounts” Funding at 96%)*
- *More Than 80% of UAL Attributable to Retirees and Tier 1 Employees*
 - *Most Accrued Prior to 2003 Reforms*
- *Liability Growth*
 - *Approximately 12% per Year Prior to 2004*
 - *Average 3% - 4% Since 2003 Reforms Put in Place*



Side Accounts

- *PERS Provides a Mechanism For Jurisdictions to Reduce Their UAL*
 - *“Side Account” Managed and Invested by PERS*
 - *Primary Advantage is Investment Earnings Potential*
 - *Minimum Contribution Based on Covered Payroll, Nominal One-Time Fee to Establish Account*
- *Typically Funded by Bond Proceeds*
 - *Multnomah County Issued Bonds in 1999 But Side Accounts Did Not Exist Then*
 - *Current Bond Structure Makes Issuance of Additional Bonds a Somewhat Risky Proposition*
- *Can Be Funded w/ Cash*
 - *PERS Bond Fund Reserves @ 6/30/14 = \$70M (Est.)*



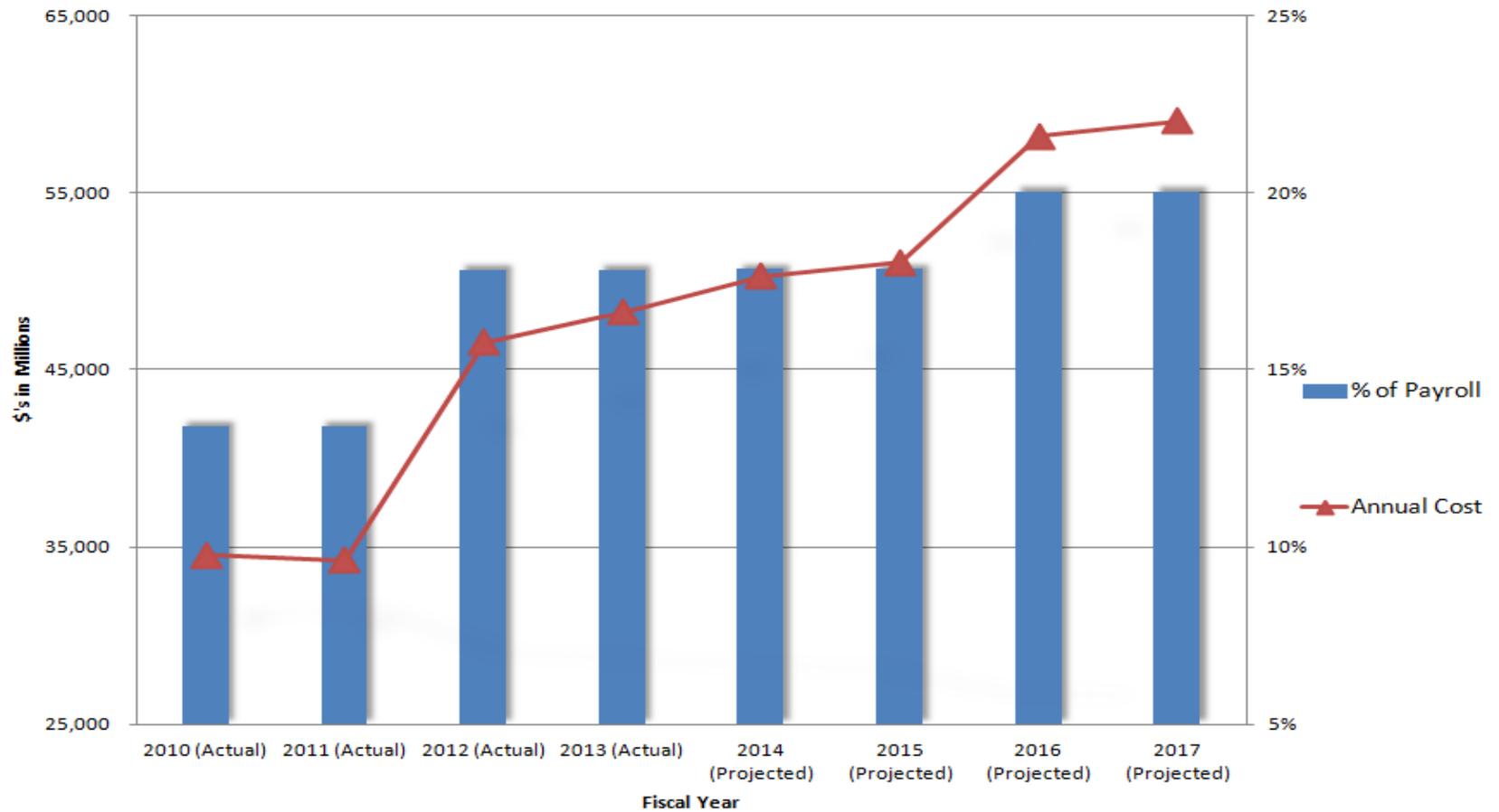
Side Accounts (Cont.)

- *Actuarial Factors Contribute to Unpredictability of UAL Over Time*
 - *Individual Jurisdiction Demographics*
 - *Growth in Payroll and Rate of Retirement*
 - *Investment Returns*
- *Side Account Can Mitigate Against These Impacts*
 - *UAL Currently Represents About 1/3rd of PERS Rates*
 - *Any Contribution to Side Account Will Reduce the Rate (All Things Being Equal)*
 - *Currently Analyzing How Much Multnomah County Can Invest – Awaiting 2013 PERS Valuation*
- *Less Risk to Seeding a Side Account w/ Cash*



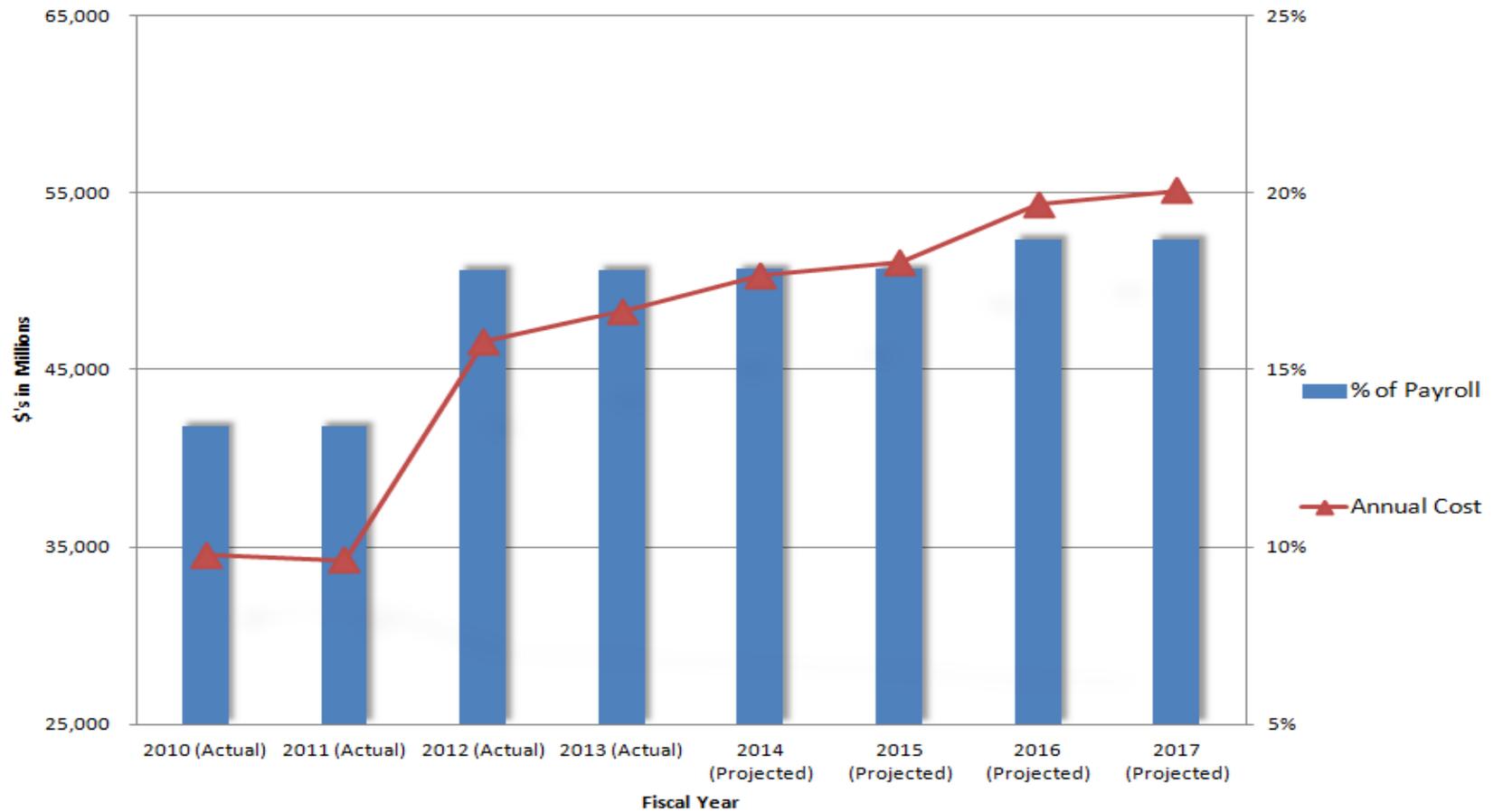
Current PERS Costs

Annual PERS Cost as % of Payroll
Forecast w/Out Side Account



PERS Costs w/ Side Account

Annual PERS Cost as % of Payroll
Forecast Assuming Creation of \$40M Side Account



GASB 67 and 68

- *Pertains to Reporting of UAL in Financial Statements*
 - *GASB 67 – Specific to PERS, Applies for FY 2014*
 - *GASB 68 – Applies to Employers Beginning w/ FY 2015*

- *What Does It Mean?*
 - *Assets Measured at Fair Market Value, Most Employers Will Have a Liability on Balance Sheets*
 - *Employers Either Need Audited Data From PERS or Have External Auditors Compile Information*

- *Legislation Passed in February Provides For PERS to Allocate Costs of Audit*

- *What If We Don't Comply?*
 - *Could Receive a Qualified Audit Opinion*
 - *Potential Impact on Future Cost of Borrowing*



Final Thoughts

- *System Reforms Passed in 2013 Have Greatly Improved the Financial Health of PERS*
 - *But, Legal Challenges Yet to Be Decided*
- *Investment Gains Have Mitigated Some of the Impacts of the “Great Recession”*
- *Benefits to Retirees Will Be Reduced*
 - *In The Future It Is Unlikely Any Individual Will Have Benefits > 100% of FAS*
- *Multnomah County Should Invest in a Side Account*
 - *“Put Savings to Work”*
 - *CFO to Return w/ Specific Recommendation Pending Analysis of 2013 PERS Valuation*

