PERS Briefing

Presented to the Board of County Commissioners

Multnomah County
June 10, 2015

Located at: www.multco.us/budget

Overview // Agenda

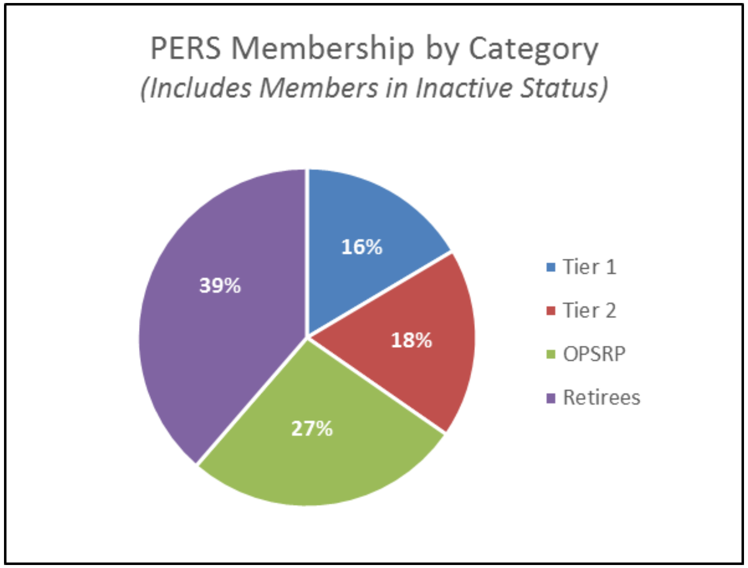
- Overview of PERS
  - What Is PERS?
  - Describe Benefit Programs and Differences
  - How Is PERS Funded?
- Overview of SB 822 and SB 861
  - Impact of Decision In *Moro v. Oregon*
- Implementation of Moro Decision
  - Rates Set For Current Biennium
  - Employer Rates Will Increase Beginning 7/1/17
- Discussion of Funding Options
  - Finance/Budget Office Recommendation

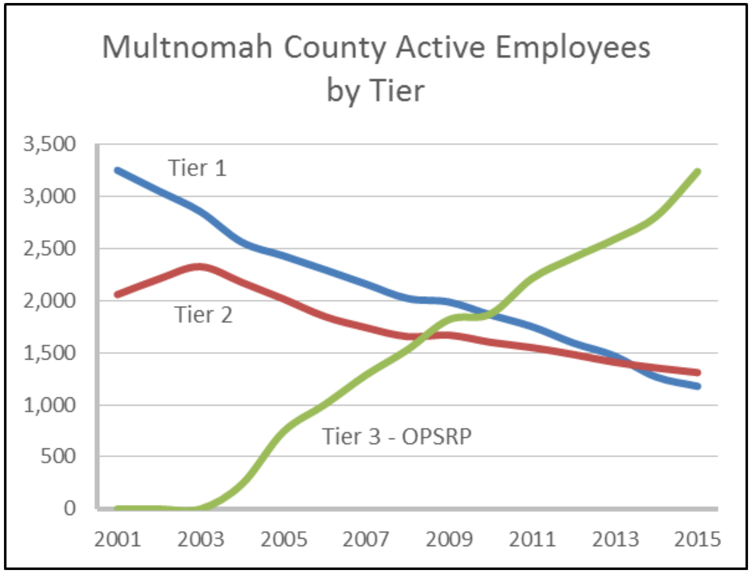
Overview of PERS

- 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

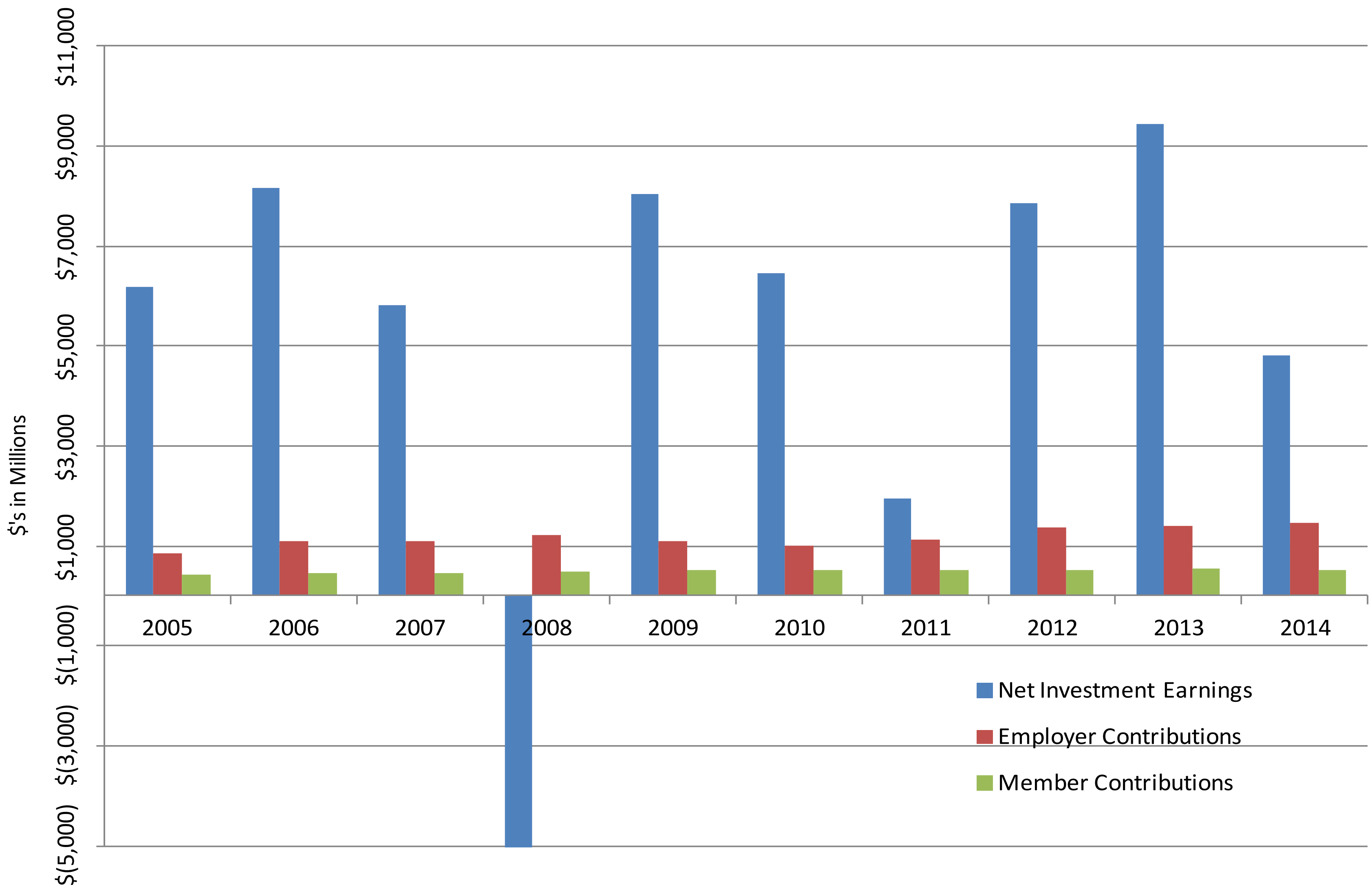




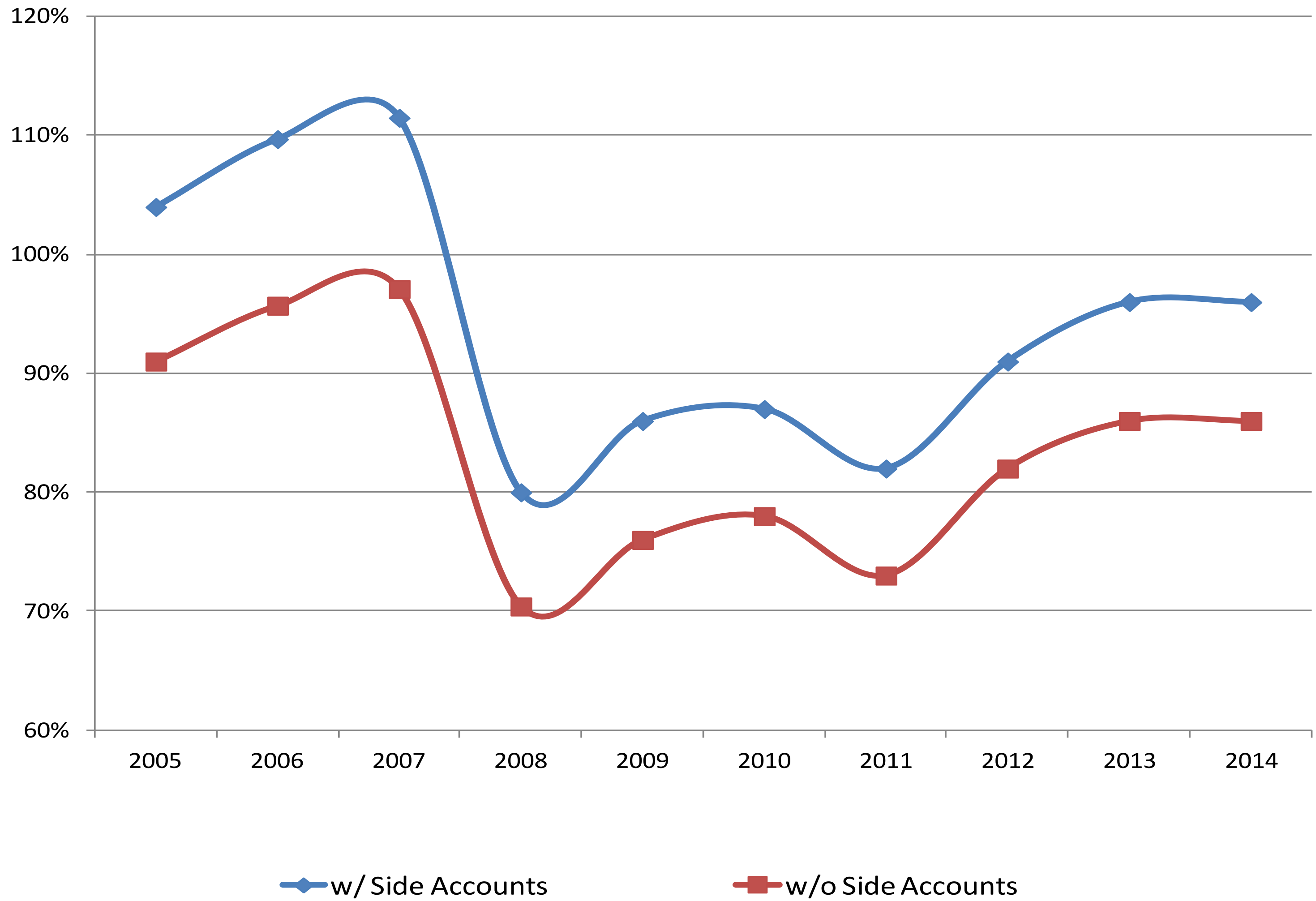
Benefit Comparison

	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 7.75% 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	No	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

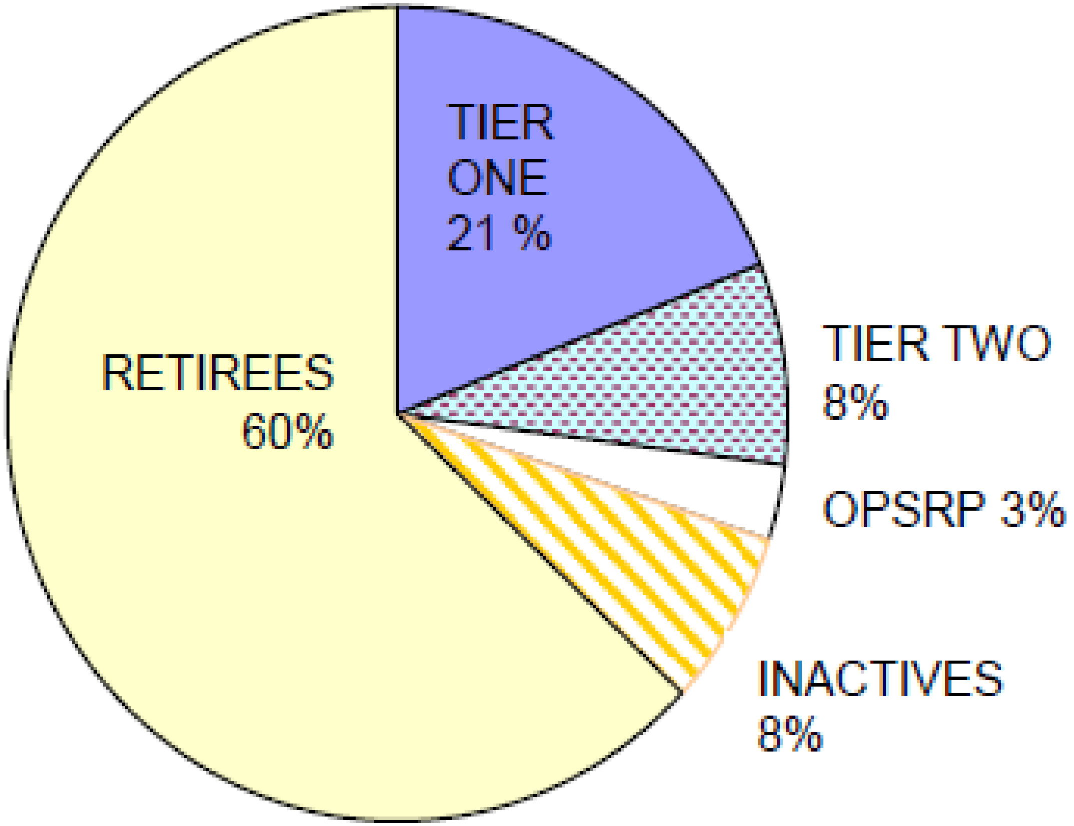
How Is PERS Funded?



PERS Unfunded Liability



System-Wide PERS Unfunded Liability by Tier



- *Source: PERS: By The Numbers – April 2015*

Overview of Legislative Reforms

- 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' Additional 1.9% Rate Increase
  - Total Average Rate Reduction = 4.4% of Payroll

Overview of Legislative Reforms (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

Moro v. Oregon (Supreme Court Decision)

- What Did The Court Decide?
  - Upheld Elimination of Tax Remedy Payments to Non-Oregon Resident Retirees
  - COLA Reductions Declared Unconstitutional as Applied to Benefits Earned Prior to Effective Date of Legislation
  - Upheld Reduced COLAs as Applied to Benefits Earned After Effective Date of Legislation
  - Voided Supplementary Payment Program

- What is The Financial Impact?*
  - Overturned $5.0 Billion of $6.3 Billion Savings From Reforms
  - Uncollared Employer Rates Increase 4.4% System-Wide For UAL
  - Impacts on Pools Vary
    - SLGRP = 3.8%
    - School Districts = 5.3%
    - OPSRP = 0.1%

** Per Milliman - May 29, 2015 Actuarial Analysis of Moro Decision presented to the Oregon PERS Board*

Impact of Decision on Multnomah County

- Rate Changes Not Effective Until 7/1/2017 (County FY 2018)
  - Rates Likely To Be 'Collared' at Top of Range, Or Approximately 3.7% System-Wide
  - Double Collar to Smooth Employer Rates
    - 20% of current rate or 3% of payroll if PERS funded between 70% to 130%
    - 40% of current rate or 6% of payroll if PERS funded between 60% to 140%
  - Effectively Postpones Employer's Contribution and Increases Absolute Long-Term Cost
- Full Rate Increase In FY 2018, Absent Rate Collar, Would Be Approximately 4.5% (+/-) Using System-Wide Averages
- County Payroll Costs Increase by $16.5 Million (All Funds), GF Impact Approximately $7.9 Million
  - Translates to About 150 FTE

Options For Consideration

- Do Nothing – Implement Rates In Sync w/ PERS
- Internal Rate Smoothing and Buffering
- Create a Side Account w/ Cash
- Create a Side Account w/ Bond Proceeds

Options Speak More Toward Managing Increases Rather Than Mitigating Them

- Options For Mitigating Increases More Limited Following Moro Decision

Options For Consideration

Do Nothing

- Rely on PERS Collar to Smooth Rates and Hope For Better Investment Earnings
- No Increase In FY 2017
- Relatively Large Increase In FY 2018 – Roughly 3.8% of Payroll or $14.0 Million
- Another Significant Increase Would Occur In FY 2020
- Under-Recovers True Cost of PERS from Non-GF Revenues

PERS Rates - FY 2016 vs. FY 2018
As Percentage of Payroll, OPSRP Not Shown

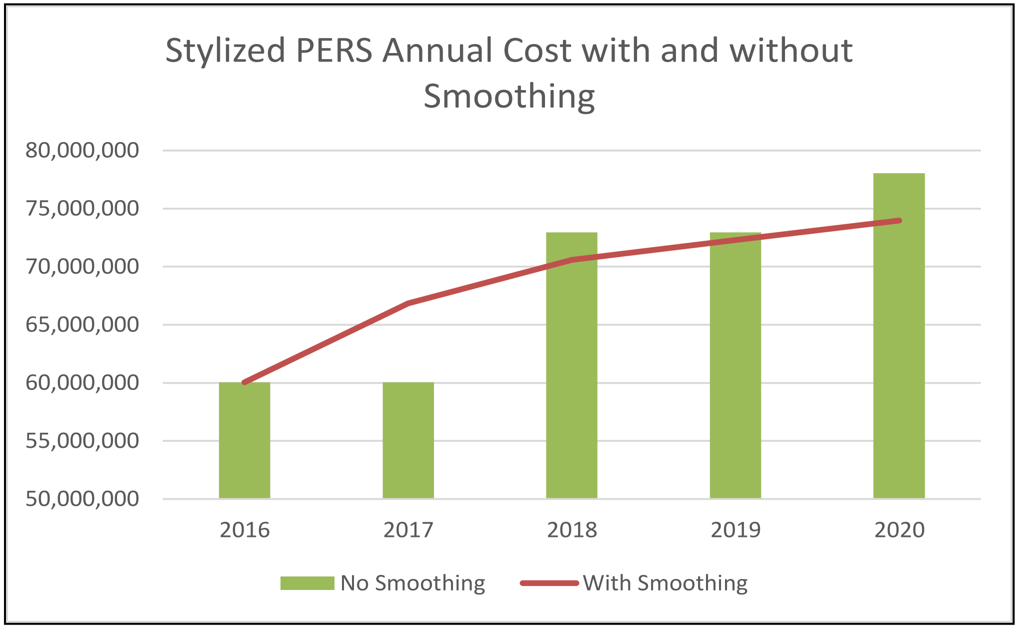
	FY 2016	FY 2018
Tier 1/2 Uniform		
PERS	17.60%	21.40%
6% Pick-up	6.00%	6.00%
PERS Bond Surcharge	6.25%	6.25%
	29.85%	**33.65%**
Tier 1/2 Non-Uniform		
PERS	13.72%	17.52%
6% Pick-up	6.00%	6.00%
PERS Bond Surcharge	6.25%	6.25%
	25.97%	**29.77%**

Options For Consideration

Internal Rate Smoothing & Buffering

- Begin Raising Rates In FY 2017
- Glide Path – Provides Flexibility and Ability to Adjust/Recalibrate
- Allows for $5 million More of Programs In FY 2020
- Possible to Set Rate to Fund Side Account
- Effectively 'De-Collars' From PERS

Fiscal Year	Increase as % of Payroll
2016	0.00%
2017	2.00%
2018	1.10%
2019	0.50%
2020	0.50%



Options For Consideration

- Side Account Basics
  - Special, Employer Specific Account to Cover UAL
  - Funded w/ Pension Obligation Bonds or Other Sources (i.e., Internal Savings or Surcharges)
  - Basically An Arbitrage Play
    - Assumes Cost of Borrowing or Interest Earned on County Cash Balances Is Less Than Side Account Earnings
  - But, This May Not Always Be True, Introduces Significant Risk
    - Timing Is Crucial, Bonds Issued in 2007 – PERS Returns The Following Year Fell by 27%
  - School Districts and State Agencies Most Common Users

Options For Consideration

Create Side Account with Cash

- Use Some Prudent Level of PERS Bond Fund Reserves, Smoothing Balance, or Charges to Departments
- Goal Would Be Rate Reductions to Offset Charges to Departments For PERS Bond Fund Debt Service
- Avoids Borrowing Cost Risk
- Current Cash Earnings Very Low and Over Long-Term PERS Returns Should 'Beat' Cash Earnings
- Reduces Cost Whereas 'Smoothing' Does Not
- Savings Accrue Over Long-Term
- Could Create Multiple Side Accounts Over Time

Options For Consideration

Create Side Account with Bond Proceeds

- Would Issue Taxable Bonds to Fund Side Account at Approximately 5% to 5.5% (*Based on Current Market Conditions*)
- Would Charge Departments to Repay Bonds (Dept's Currently Pay 6.25% of Payroll For Existing PERS Bonds)
- Government Finance Officers Association Recommended Against Issuing Pension Obligation Bonds (POBs) in January 2015
  - "POBs Involve Considerable Investment Risk, Making This Goal Very Speculative"
- Debt Capacity and Potential Impact on Credit Rating
- Locks County Into a Long-Term Commitment

Recommended Approach

<u>Recommendation</u>*: *Employ Rate Smoothing and Explore Creating a Side Account with Cash

- Provides Stability and Flexibility
- Manages Risk
- Side Account w/ Cash Has Better Rate of Return Spread
- Better Captures PERS Costs From Non-GF Revenues
- Takes Advantage of County's Good Financial Position

Concluding Thoughts

- Court Decisions Have Been Consistent w/ Regard to Retiree Pension Benefits
  - Important Because 70% of UAL Related to People Who Are No Longer Working For a PERS Covered Employer
- Additional PERS Bonds a Risky Play
  - Current Bonds Cannot Be Refunded
  - Reserves Designed to Smooth Impact of Escalating Debt Service
- PERS Board May Reduce Assumed Earnings Rate
  - Reduction From 7.75% to 7.5% Adds to UAL and Will Increase Rates
- Consider Adopting a Formal Financial & Budget Policy Related to PERS Funding
  - State a Preference for Creating a Standard Smoothing Mechanism

Questions/Comments