Minutes of the Board of Commissioners
Multnomah Building, Board Room 100
501 SE Hawthorne Blvd., Portland, Oregon
Tuesday, January 29, 2013

Board Briefings

Chair Jeff Cogen convened the meeting at 10:04 a.m. with Vice-Chair Judy Shiprack and Commissioners Loretta Smith and Diane McKeel present. Commissioner Deborah Kafoury was excused.

Also attending were Jenny M. Morf, County Attorney, and Marina Baker, Assistant Board Clerk.

REGULAR AGENDA

B.1 Briefing on PERS Funding and Potential Mitigation Strategies. Presenter: Mark Campbell, Chief Financial Officer.

Mr. Campbell provided the opening remarks and explained that he is here today to identify opportunities for the County to mitigate the impact of the Public Employees Retirement System (PERS) rate increments on direct services and offer specific recommendations on how to manage PERS liability.

Mr. Campbell gave an overview of PERS, a cost sharing, multi-employer defined benefit pension plan created by the legislature in 1945, adopted by the County in 1971, which currently has more than 900 participating employers. PERS is administered by a five member Board, whose seats are by Gubernatorial appointment. Funds are managed by the Oregon Investment Council. He reviewed the PERS benefit programs, which include: Tier 1, consisting of employees hired prior to January 1, 1996; Tier 2, consisting of employees hired between 1996 and 2003; the Oregon Public Service Retirement Program (OPSRP), consisting of employees hired since September 2003. Members can also make contributions directed to the individual account program (IAP) since January 2004.

Mr. Campbell gave a breakdown of PERS beneficiaries (including members in the inactive status), with 36% retired, 20% in Tier 1, 20% in Tier 2, and 24% in ORSRP. He provided a PERS benefit comparison that encompasses Tier 1, Tier 2 and OPSRP comparisons using retirement age for general and uniformed service; account earnings; retirement calculation methods and the multiplier formula for general and uniformed service.

He explained that the majority of the funding comes from investment earnings. The rest of the funding comes from employer and member contributions. He discussed how employer rates are set and their impact on the County, and shared thoughts on the Unfunded Actuarial Liability (UAL). Mr. Campbell reviewed the 2003 legislative reforms and their impact, which limited crediting for Tier 1 members to no more than 8%; shifted 6% pick-up to the Individual (IAP); created the OPSRP; updated the mortality tables; and changed the composition of the PERS Board. Currently, despite the limited options for addressing the UAL, the short lived rate relief, and increase in average rates, Multnomah County is still better off than most employers, in and out of state.

Mr. Campbell explained that PERS changes have a statewide impact, so there needs to be a balance between the stability of the system, while maintaining fair retirement benefits. He provided suggestions, such as creating a “side account” and issuing additional pension obligation bonds; having a lump sum transfer of one-time-only funds to PERS; bonding; and several variations of altering cost of living adjustments (COLA) and/or IAP. Other concepts include: reducing money match annuity rate to 6%; eliminating money match option for Tier 1 and Tier 2; eliminating the tax remedy for non-Oregon residents; removing adjustment factors for final average salary; and eliminating unused vacation and sick leave from final average salary calculation. Costs to Multnomah County are projected to rise to over 20% of payroll by 2014. He said the Governor’s concepts will be tested in his 2013-2015 Budget proposal; reducing the assumed earning rate; and extending the amortization of UAL to 25-30 years.

Mr. Campbell discussed the potential mitigation strategies including bonding and how when bonds were sold, savings were estimated to be at $30 million with rates 3-4% of payroll, but overall rates have continued to increase with annual debt service surcharge on payroll currently at 6.5%. PERS Fund losses in the past 10 years eroded much of the benefit o fthe bond issuance. Average PERS fund earnings for 2000 to 2011 were 5.65%.

Mr. Campbell then addressed whether the County should issue additional bonds, saying that this may be feasible since taxable interest rates are much lower today than in 1999, but the structure of the debt issue would be critical, because the annual debt service on $300 million is $18 million. When combined with 1999 Bonds outstanding, PERS debt would be approximately $430 million. Total payroll surcharge required is 13% of payroll and assumptions on PERS fund earnings are crucial to an analysis to see if further bond issuance is feasible

Mr. Campbell emphasized that any changes to member benefits will likely be litigated, but without change, employer rates will continue to increase. Employer rates increases can come from increases in benefits paid to retirees and/or a decrease in the assumed proportion of benefits paid by investment earnings. Reductions in employer rates can come from a reduction in benefits paid to retirees and/or extending the time over which employer costs are paid.

Mr. Campbell responded to Board questions and comments.

The Chair and Commissioners thanked him for his informative presentation.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:33 a.m.

The minutes reflect the actions of the Board. For more detail, you are welcome to view the presentation material and/or video at: http://multnomah.granicus.com/ViewPublisher.php?view_id=3

Submitted by:
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Board of County Commissioners
Multnomah County