



FY 2013 Budget Worksession – General Fund Forecast Update

Issues/Discussions/Findings

General Fund Forecast Update

Commissioner Shiprack: Please provide a chart demonstrating the future changes in PERS and the County's projected contribution, including what will happen to the unfunded accrued liability as demographics shift over time.

Response:

The three charts below are taken from Mercer's March 28, 2011 presentation to the PERS Board which covered the financial modeling of the system as a whole. Because the rates are driven heavily by market returns and the PERS structure, the changes in our rates should generally follow the pattern of the system as a whole. Given the low 2011 returns, the results will be worse than shown in the slides. The full report can be found here:

http://www.oregon.gov/PERS/docs/financial_reports/0328_financial_modeling.pdf

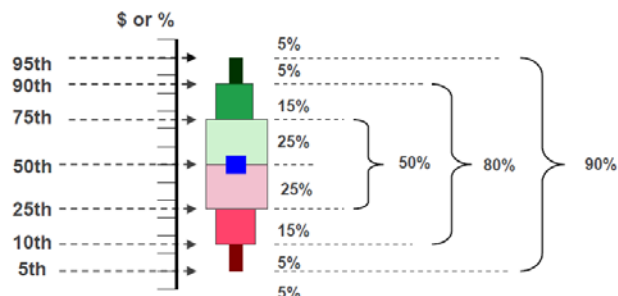
You may also be interested in the most recent actuarial valuation which can be found here:

http://www.oregon.gov/PERS/docs/financial_reports/mercerc_actuarial_valuation_9-30-11.pdf

Several quick notes and observations... The first slide below provides a quick 101 on how to read the charts.

- The first slide (#10) basically says our base rate is likely to exceed 20% thru 2029.
 - The second slide (#11) suggests the system funded status won't return to 100% until 2029.
 - The third slide (#13) suggests that our rates will increase over the next two bienniums and then flatten out.
 - As the range bars show on all 3 charts, investment returns can influence rates and the funded status. And, the range (uncertainty) grows as one projects further out.
- The model outputs key system measures such as contribution rates and funded status, with results displayed graphically in percentiles

Percentile Ranking Likelihood of Occurrence

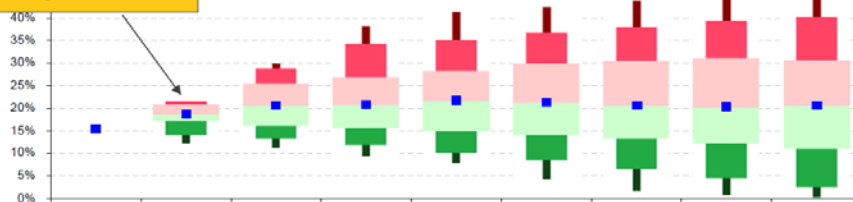


Baseline Financial Modeling

Combined (Tier 1/Tier 2, OPSRP) Base* Contribution Rate

In over 75 percent of scenarios, base rates increase at 2013. The 50th percentile increase is 3.1% of payroll. The rate collar prevents rates in worst scenarios from rising above 21.6%.

For 2015 and beyond, over half of all scenarios have base rates in excess of 20% of payroll, but significant volatility exists



Biennium	2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029
5th	15.6%	21.6%	29.9%	38.1%	41.3%	42.4%	43.8%	44.3%	46.2%
10th	15.6%	21.6%	28.9%	34.4%	35.3%	37.0%	38.1%	39.6%	40.4%
25th	15.6%	21.0%	25.6%	27.0%	28.5%	30.0%	30.3%	31.2%	30.7%
50th	15.6%	18.7%	20.5%	20.7%	21.8%	21.3%	20.6%	20.4%	20.5%
75th	15.6%	17.4%	16.0%	15.8%	14.9%	14.2%	13.3%	12.3%	11.0%
90th	15.6%	14.2%	13.2%	11.9%	10.2%	8.7%	6.6%	4.7%	2.7%
95th	15.6%	12.3%	11.3%	9.6%	7.8%	4.5%	1.8%	0.9%	0.5%
5th - 95th	0.0%	9.3%	18.6%	28.5%	33.5%	37.9%	41.9%	43.5%	45.8%

*Base rates do not reflect the effects of side account rate offsets and Pre-SLGRP liabilities, and do not include contribution rates for the IAP or retiree healthcare programs, or debt service on pension obligation bonds. The Tier 1 Rate Guarantee Reserve is not excluded from assets for years where the reserve is negative.

Baseline Financial Modeling

Combined (Tier 1/Tier 2, OPSRP) Funded Status (Excluding Side Accounts)

Investment sensitivity is high enough that by the 2013 rate-setting valuation, funded status is greater than 100% in more than 5% of scenarios and less than 50% in more than 5% of scenarios

The large Tier 1/Tier 2 shortfall created by the 2008 market downturn is scheduled to be amortized over 20 years if assumptions are met. At the 50th percentile, the amortization pattern is that funded status stabilizes over the first ten years and then improves over the second ten years.



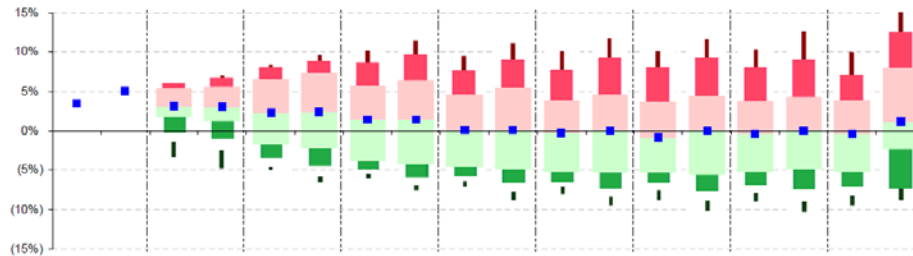
PY Ending 12/31	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
95th	79%	84%	100%	104%	106%	110%	114%	119%	123%	127%	129%	133%	134%	138%	142%	145%	152%	156%	159%	162%
90th	79%	80%	96%	98%	100%	103%	105%	109%	111%	115%	118%	120%	122%	124%	130%	132%	137%	139%	143%	147%
75th	79%	84%	86%	88%	90%	91%	92%	94%	95%	97%	98%	102%	103%	106%	107%	109%	112%	116%	120%	123%
50th	79%	79%	78%	78%	78%	78%	78%	79%	82%	83%	85%	87%	87%	88%	90%	93%	95%	97%	99%	
25th	79%	72%	69%	67%	66%	65%	65%	68%	68%	68%	68%	68%	69%	69%	71%	73%	75%	78%	81%	
10th	79%	66%	60%	56%	54%	52%	53%	53%	54%	54%	54%	55%	56%	57%	58%	59%	60%	64%	63%	
5th	79%	62%	53%	49%	45%	40%	46%	45%	40%	46%	48%	49%	50%	50%	50%	50%	52%	49%	52%	
95th - 5th	0%	32%	48%	55%	61%	65%	69%	74%	77%	81%	82%	86%	85%	88%	92%	95%	100%	107%	107%	106%

Baseline Financial Modeling

Biennium to Biennium Change to Contribution Rates

This chart compares period-to-period changes in base and net rates. Change levels tend to be similar around the 50th percentile, which are for investment returns close to assumption. In scenarios with both good and poor deviation from assumption, net rate changes exhibit higher volatility.

About 1/3rd of PERS payroll is for employers without side accounts, for whom base rates and net rates are identical. This means that employers with side accounts will have somewhat higher volatility than that displayed in this "system-wide average" chart.



Biennium	2009 - 2011 to 2011 - 2013		2011 - 2013 to 2013 - 2015		2013 - 2015 to 2015 - 2017		2015 - 2017 to 2017 - 2019		2017 - 2019 to 2019 - 2021		2019 - 2021 to 2021 - 2023		2021 - 2023 to 2023 - 2025		2023 - 2025 to 2025 - 2027		2025 - 2027 to 2027 - 2029	
	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net
5th	3.5%	5.1%	6.0%	7.1%	8.4%	9.6%	10.2%	11.3%	9.4%	11.1%	10.0%	11.7%	10.1%	11.6%	10.3%	12.6%	10.0%	15.1%
10th	3.5%	5.1%	6.0%	6.7%	8.1%	9.0%	8.8%	9.9%	7.7%	9.2%	7.9%	9.3%	8.1%	9.3%	8.1%	9.2%	7.2%	12.6%
25th	3.5%	5.1%	5.4%	5.7%	6.7%	7.3%	5.8%	6.5%	4.7%	5.0%	4.0%	4.7%	3.7%	4.5%	3.9%	4.4%	4.0%	8.0%
50th	3.5%	5.1%	3.1%	3.0%	2.3%	2.4%	1.4%	1.5%	0.2%	0.1%	(0.2%)	0.0%	(0.8%)	0.0%	(0.4%)	0.0%	(0.4%)	1.2%
75th	3.5%	5.1%	1.8%	1.3%	(1.6%)	(2.2%)	(3.8%)	(4.2%)	(4.5%)	(4.9%)	(5.0%)	(5.2%)	(5.3%)	(5.5%)	(5.1%)	(4.9%)	(5.0%)	(2.3%)
90th	3.5%	5.1%	(1.4%)	(2.5%)	(4.6%)	(5.9%)	(5.8%)	(7.0%)	(6.5%)	(7.8%)	(7.3%)	(8.5%)	(7.6%)	(9.0%)	(7.9%)	(9.1%)	(8.3%)	(7.2%)
95th	3.5%	5.1%	(3.3%)	(4.7%)	(5.0%)	(6.7%)	(6.3%)	(7.8%)	(7.6%)	(9.1%)	(8.4%)	(10.0%)	(9.3%)	(10.9%)	(9.5%)	(11.0%)	(10.1%)	(9.7%)
5th - 95th	0.0%	0.0%	9.3%	11.8%	13.3%	16.3%	16.5%	19.2%	17.0%	20.3%	18.4%	21.7%	19.4%	22.5%	19.8%	23.7%	20.1%	24.8%

Mercer

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Commissioner Shiprack: Does the County have investment opportunities that it can use to accrue additional earnings to address PERS funding? What options does the County have outside of the PERS investments overseen by the Oregon Investment Council?

Response:

County investments are governed by state statute and Board policy. Generally, we can only invest in financial instruments deemed to be the most "safe" – for example, treasury and agency offerings, high rate corporate debt, and certain municipal bonds. Additionally, our investments are primarily designed to provide for cash flow needs throughout the year.

That being said, we have built up a reserve in the PERS Bond Fund that can be used (at least in the short-term) to mitigate PERS rate increases that are forecast for 2013-2015. In the upcoming year we will be exploring alternatives to manage the unfunded liability. This could take the form of issuance of additional PERS bonds, using some of our unallocated cash balances to fund a "side account" with PERS, or pursuing legislative and policy changes through the PERS Board.

Any solution considered should be weighed against other competing priorities and must demonstrate a positive net financial impact to the County.