

PERS Update

**A presentation to the
Lane County Budget Committee**

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February 2, 2010



PERS: Historical Perspective

- Early 1940s: Oregon's best and brightest flooding into private industry; public employers could not compete with private industry's higher wages and the promise of retirement benefits in a wartime economy
- Problem compounded by aging state and local government workforce. Early 1940s study of the Portland Bureau of Parks found that 50 percent of its staff was over 60 years old and only six employees were under 40. Some agencies had employees who were over 80 but they kept working because they could not afford to retire
- According to a 1942 U.S. Census Bureau report, less than 8 percent of public employees in Oregon were covered by some retirement system while 46 percent of state and local public employees in other states were covered

PERS: Historical Perspective (continued)

- Oregon's Public Employees Retirement System was established in 1945 by House Bill 344
- Goal is still the same today: draw the best people to public service and provide a fair retirement benefit for service to Oregonians
- However, PERS is an investment driven retirement system and the 2008 investment losses (although 2009 was a much better year) created challenges for PERS employers and the agency



Governor Earl Snell signed PERS into law on March 26, 1945

Membership by Category (as of December 31, 2008)

		State Agencies	Local Govt.	School Districts	Total
Tier One	Active	16,263	19,764	24,575	60,602
	Inactive	8,069	6,652	7,989	22,710
Tier Two	Active	14,352	19,122	22,639	56,113
	Inactive	4,848	7,339	7,051	19,238
OPSRP	Active	13,643	17,413	22,798	53,854
	Inactive	173	195	161	529
Sub-total	Active	44,258	56,299	70,012	170,569
	Inactive	13,090	14,186	15,201	42,477
Retirees*					107,647
TOTAL					320,693

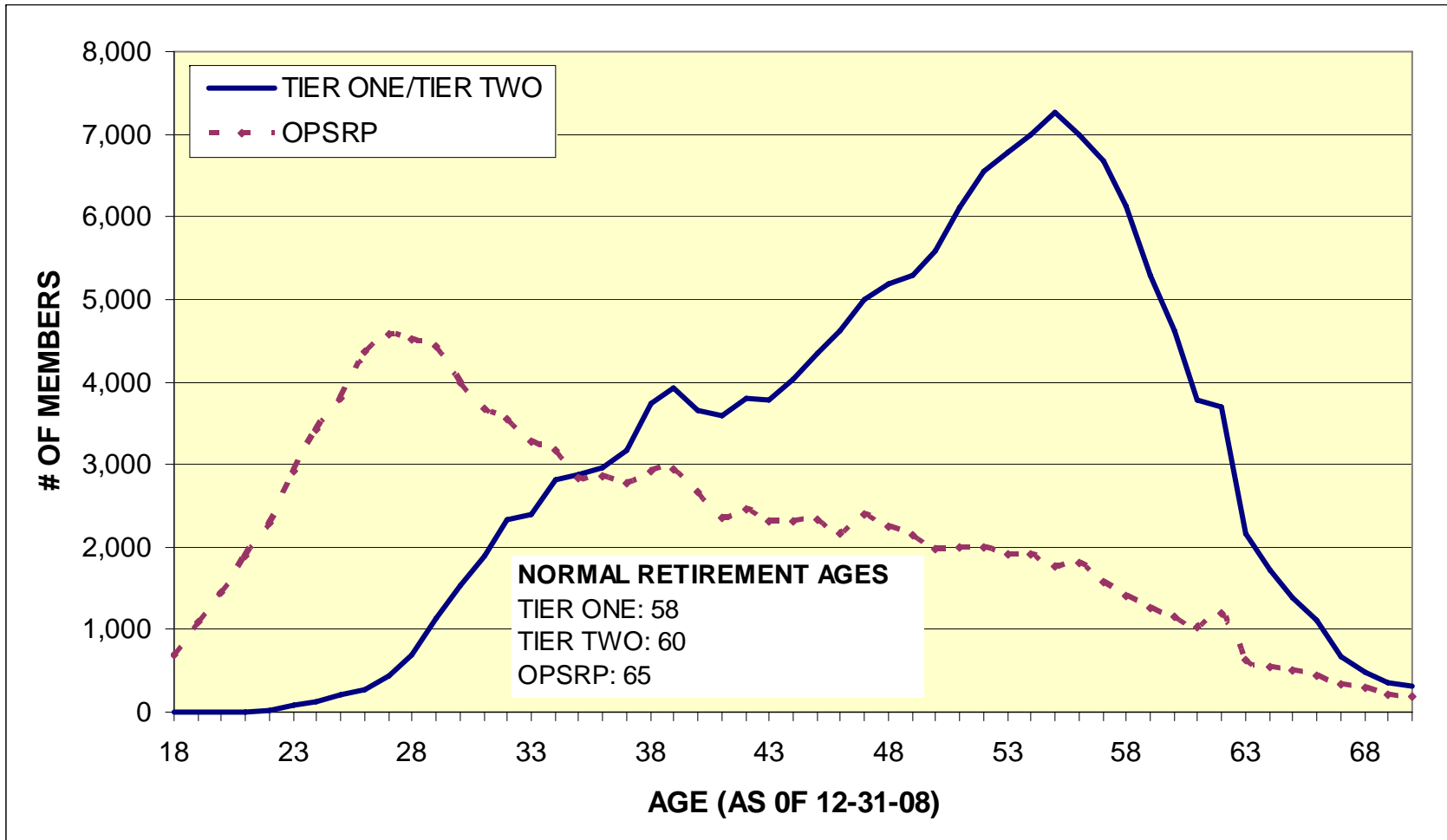
* Living retirees, beneficiaries, retirement refunds, and those with a lump-sum retirement



Oregon PERS Retirements

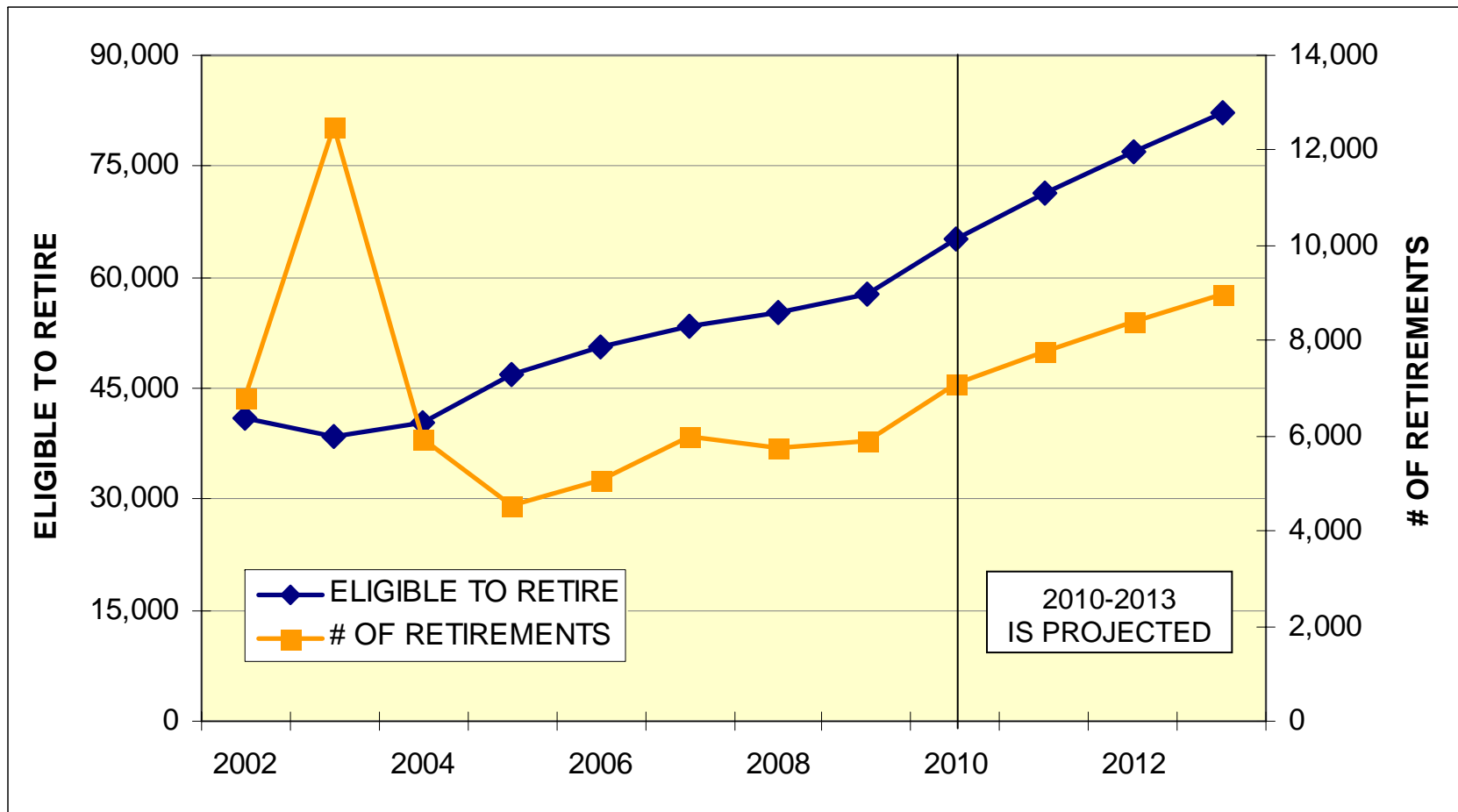
- Average 6,000 retirements per year; peaked at 12,500 in 2003
- Average age at retirement: 59
- Average years of service at retirement: 21
- Average annual benefit for FY 2008 retirees: \$30,731 (52 percent of final average salary)
- Average annual benefit for all living retirees: \$23,916
- Approximately 35 percent of PERS members are eligible to retire
- 1 in 12 Oregonians is receiving or will receive a PERS benefit

Age Wave



Retirement Trends

- The number of projected retirements closely tracks the growth in members who will be eligible to retire. Both are expected to grow about 45% through 2013



Was 2003 Reform Legislation Effective?

Pre-reform: PERS had a liability and asset growth problem

- Double-digit earnings in the 1990s fueled liability increases as account balances ballooned
- Investment markets turned negative, making the growth in liabilities unsustainable

Reform: PERS Reform legislation stabilized liability growth by diverting member contributions from Tier One/Tier Two member accounts to IAP accounts

- Member contributions no longer fund pension benefits
- Members partially bear risk of investment gains or losses
- Tier One earnings crediting limited to the assumed rate

Was 2003 Reform Legislation Effective? (continued)

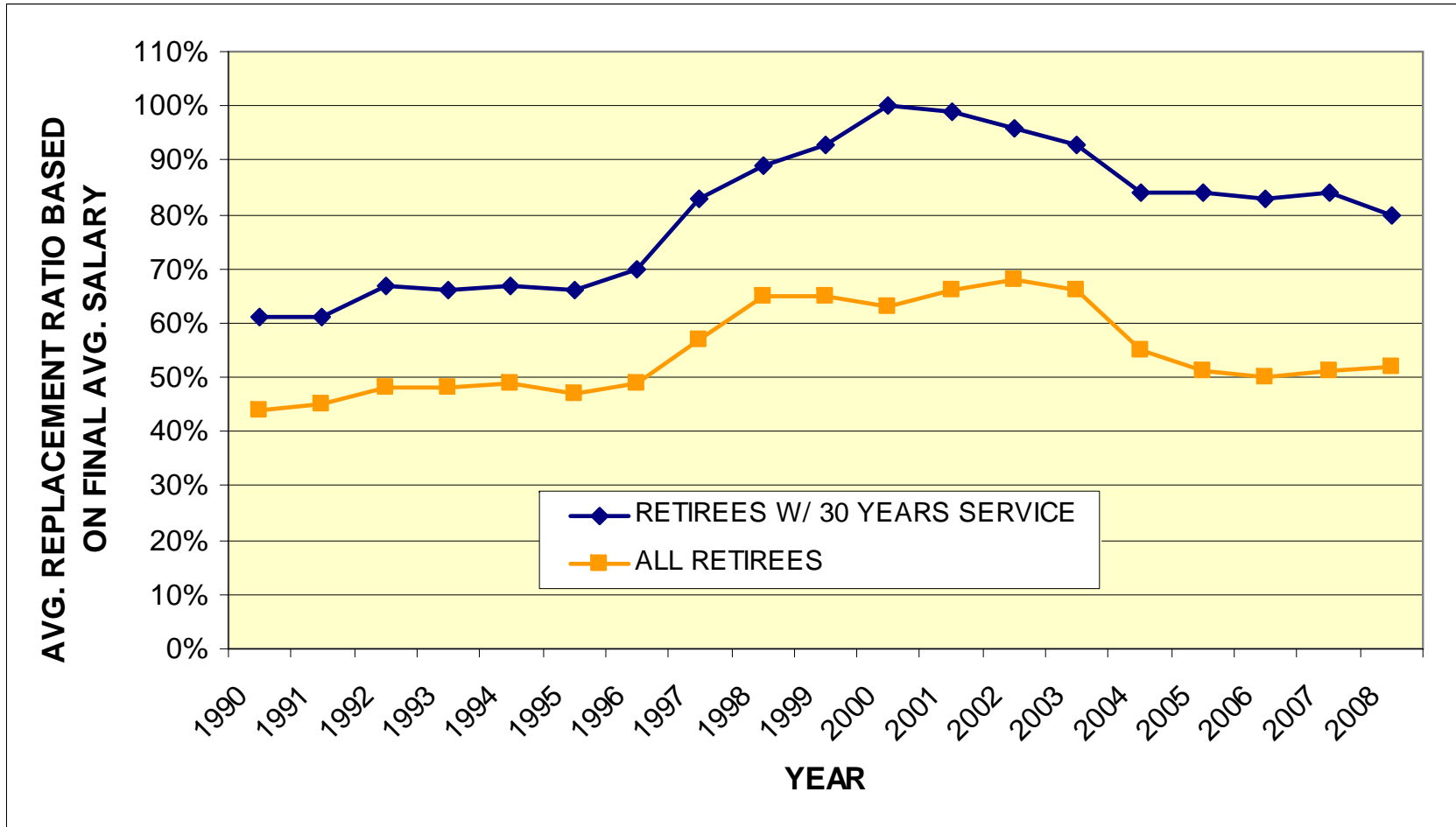
Post-reform

- Growth in liabilities more stable; reduced to about 3 percent per year
- Money Match become less predominant as a retirement calculation; Tier One members with less than 20 years of service will most likely retire under Full Formula and virtually all Tier Two members will retire under Full Formula
- Retiree replacement ratios (amount of benefit vs. final average salary) declining
- All members share in investment risk (Individual Account Program)
- System is larger; better able to handle a larger unfunded actuarial liability (UAL)

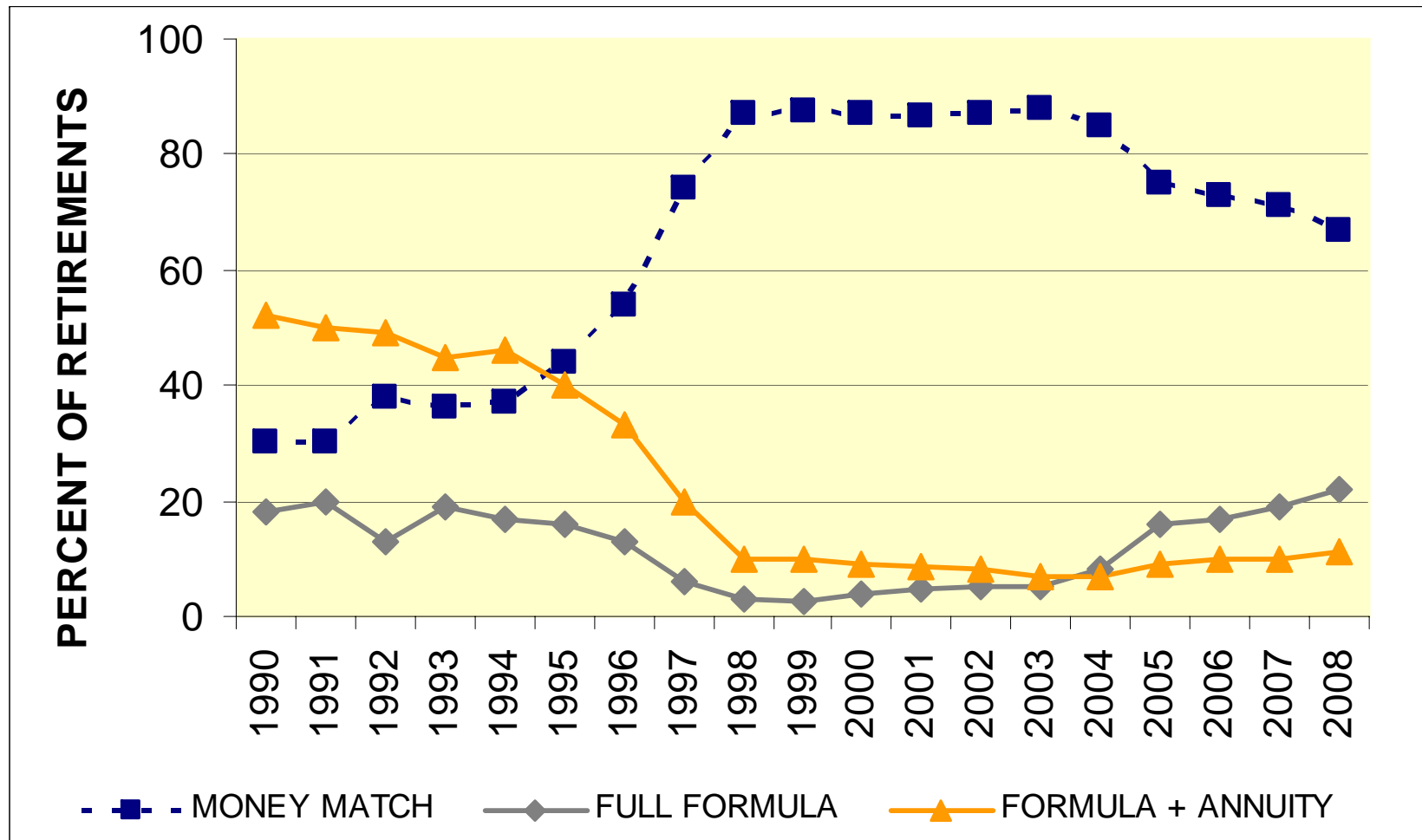
Benefit Levels

Retirement Benefit for a Full Career (30 years) Based on Replacement of Final Average Salary (FAS)				
	Money Match (Tier One/Tier Two)	Full Formula (Tier One/Tier Two)	OPSRP Pension Plan	IAP
Percent of FAS replaced	In 2000 provided an average of 100% of FAS; 80% in 2008 (replacement ratios have declined since PERS Reform and will continue to decline to Full Formula level)	~ 50% (will become predominate retirement method for almost all Tier Two members and a growing percentage of Tier One members)	45% (for new employees hired on or after August 29, 2003)	~ 15-25% (earns market rate; member assumes all investment risk)

Retirement Benefit Salary Replacement Ratios



Retirement Benefit Calculation Trends for Tier One/Tier Two



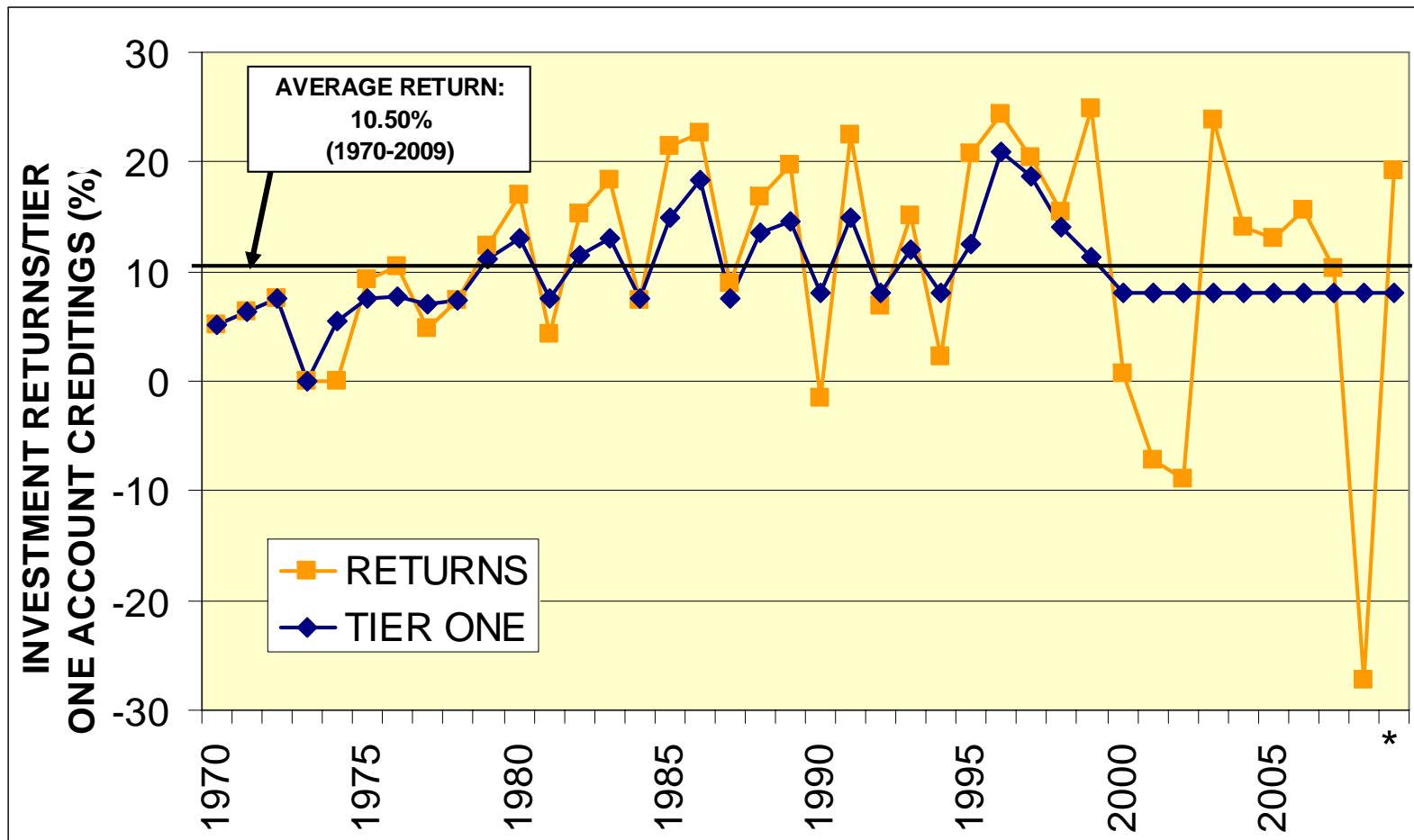
PERS' Retirement Plan Components

- One major program for 50 years
- Three major programs added since 1996; two in the last seven years

Hire date	Plan			
	Tier One	Tier Two	OPSRP Pension Program	Individual Account Program
Before January 1, 1996	■			■
January 1, 1996 thru August 28, 2003		■		■
August 29, 2003 or after			■	■

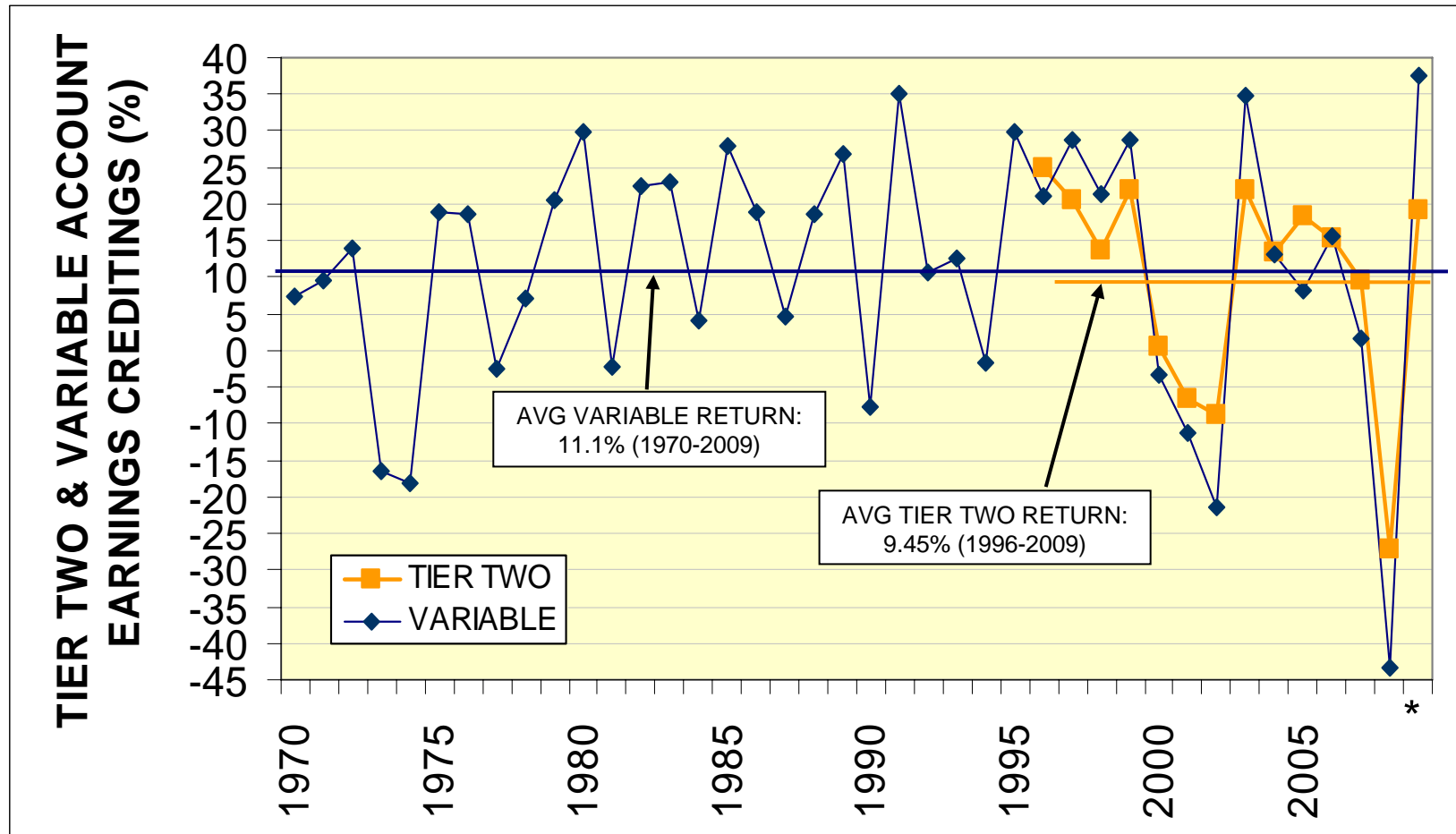
- All active members now participate in two programs, with up to three different accounts (regular, variable, Individual Account Program)

Investment Returns and Earnings Crediting to Tier One Regular Accounts



* Earnings crediting for 2009 is preliminary

Earnings Crediting to Tier Two Regular Accounts and Variable Accounts



* Earnings crediting for 2009 is preliminary

2009 *Preliminary* Earnings Crediting to Member Accounts

- Tier One member regular accounts are guaranteed 8 percent crediting annually; earnings above 8 percent are placed in the Tier One Rate Guarantee Reserve (TORGR)
- PERS Board used TORGR funds, with an additional \$1 billion, to provide the 8 percent guarantee to Tier One members in 2008; 2009 earnings will reduce that deficit to under \$425 million
- Tier Two accounts will be credited with 19.13 percent
- Individual Account Program accounts will be with credited 18.48 percent (affects Tier One, Tier Two, and OPSRP members)
- OPSRP Pension Program members have a formula-based retirement account with no account balance
- Variable accounts will be credited with 37.46 percent

System Funding

- Pension equation:

$$\text{Liabilities/Benefits} = \text{Investments} + \text{Contributions}$$

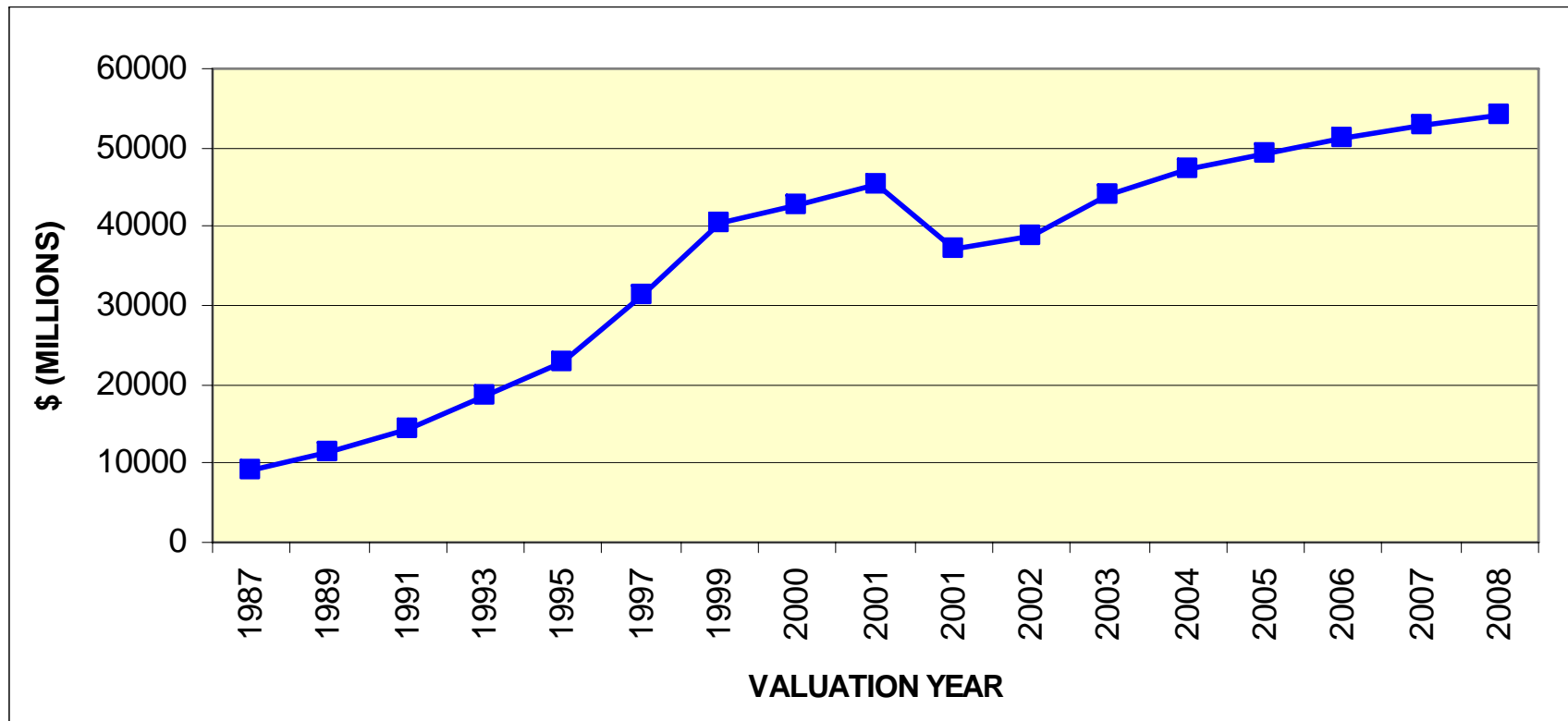
- Discussion points:
 - Liabilities/benefits are stable
 - PERS is investment dependent
 - Importance of funded status
 - Employer rates

Liabilities/Benefits = Investment Earnings + Contributions

Liabilities/Benefits are stable

- 2003 Reform Legislation stabilized system liability growth
 - Liabilities increase by about 3 percent per year
 - System inflation assumptions 2.75 percent per year
 - Growth in liabilities moderated primarily due to:
 - Tier One/Tier Two member contributions being diverted to IAP accounts, so members bear the risk of investment gains or losses
 - Tier One earnings crediting is limited to the assumed rate
 - Creation of lower-cost retirement program, the Oregon Public Service Pension Program (OPSRP)
 - Average U.S. public pension benefit uses a factor of 1.8 percent of final average salary
 - Tier One: 1.67 percent (general service)
 - OPSRP: 1.5 percent (general service)

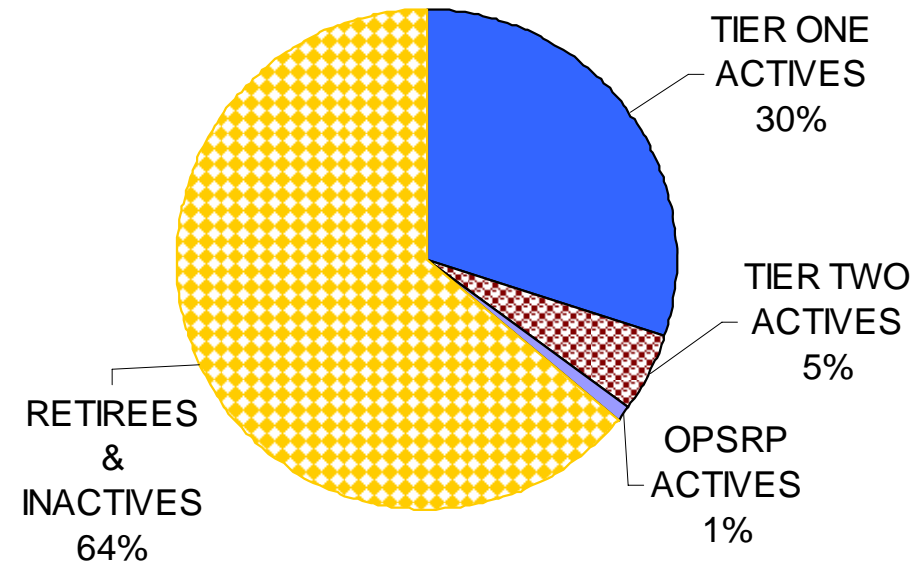
PERS' Liability History 1987-2008



Liabilities/Benefits = Investment Earnings + Contributions

PERS is a mature system

- 64 percent of accrued liabilities are for retirees and inactive members whose benefits are protected by federal law
- 30 percent of total liabilities are attributed to active Tier One members; almost half of that liability is for Tier One members aged 55 or older



Liabilities/Benefits = Investment Earnings + Contributions

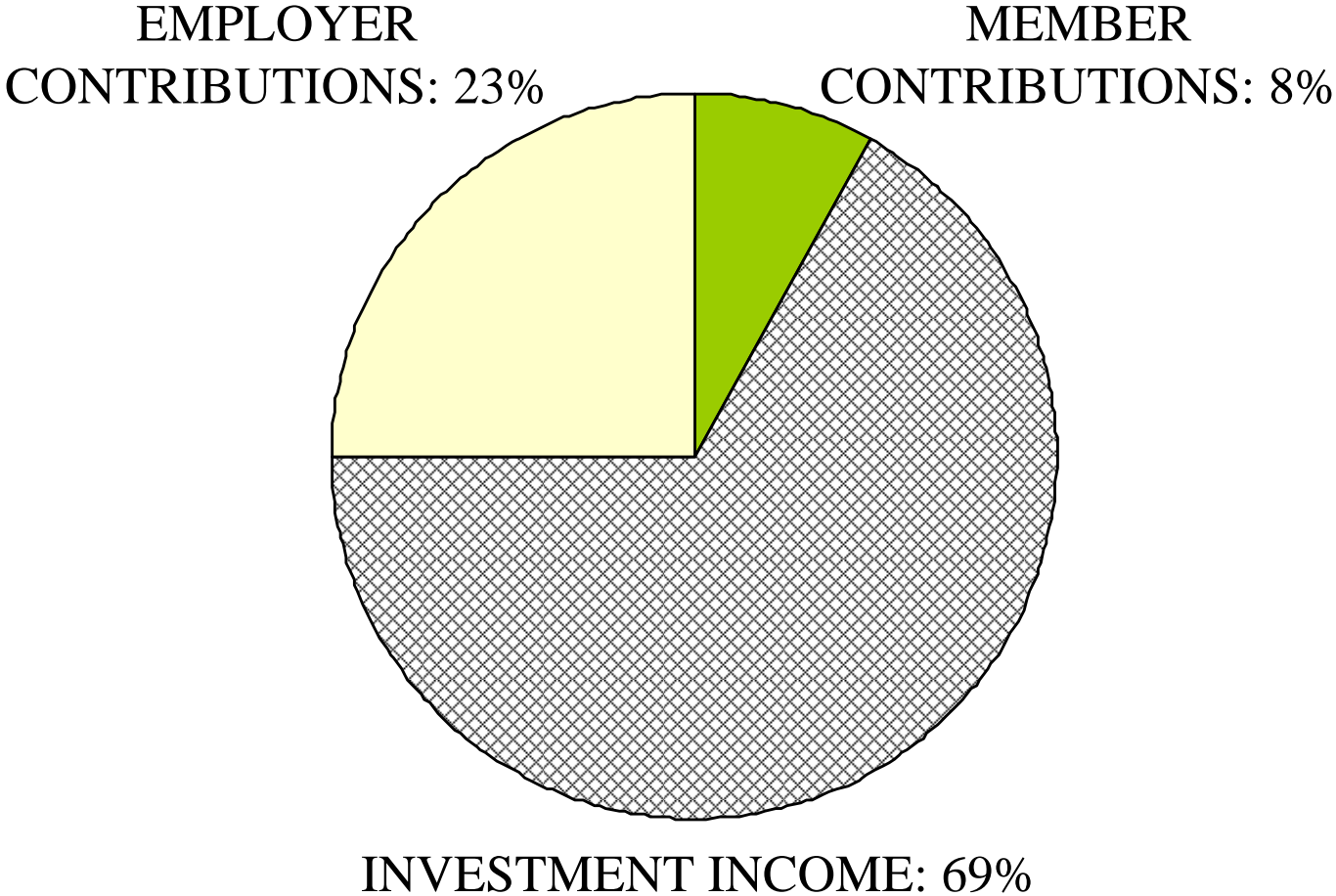
System maturity = investment dependence

- PERS' near-to-medium term demographic realities makes system susceptible to investment volatility
 - Low ratio of active members to retirees
 - Relatively small salary base in relation to system liabilities
 - High ratio of assets to active payroll
 - Good returns
 - Issuance of pension obligation bonds
- Low ratio of contributions to benefits

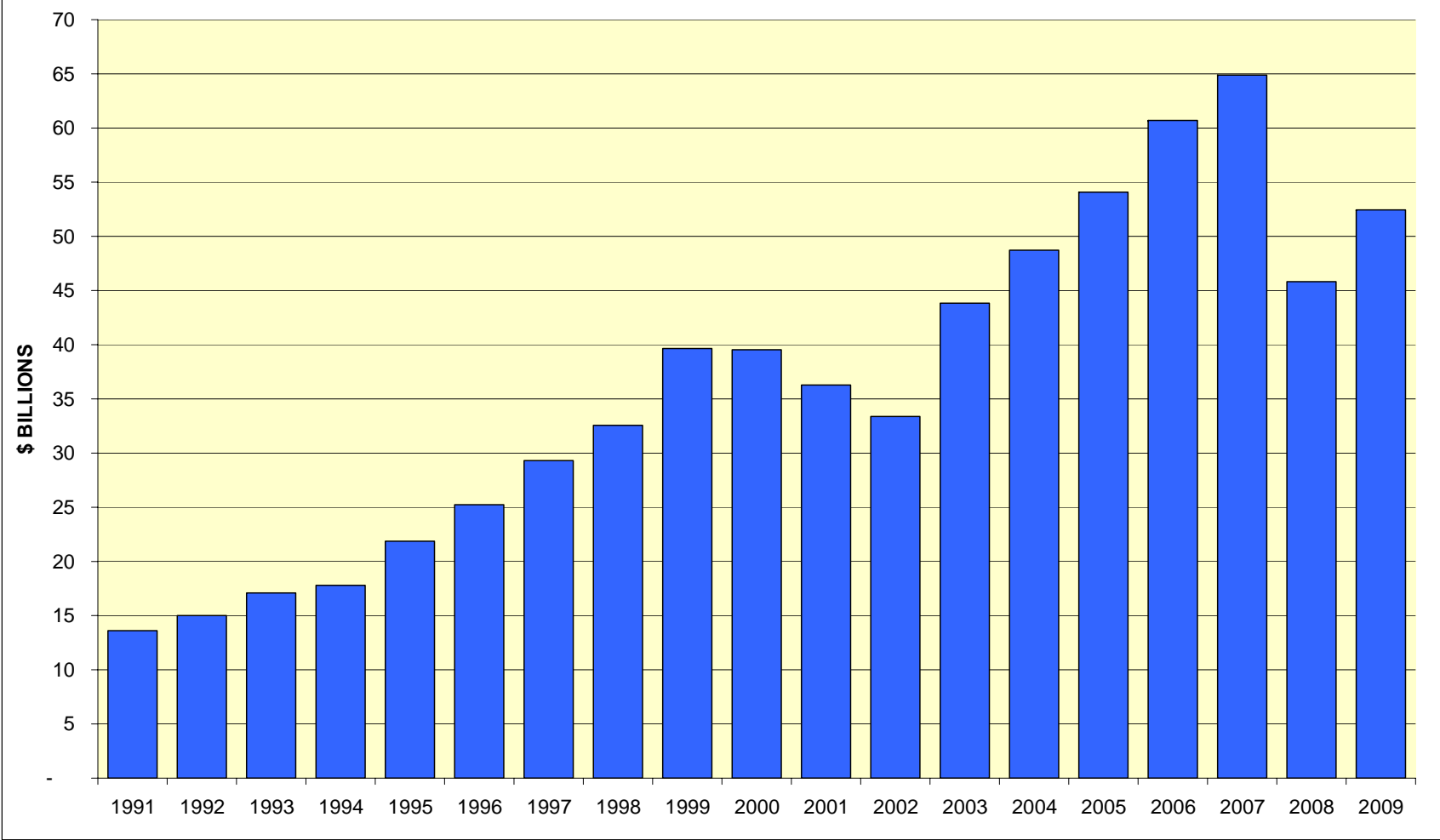
Liabilities/Benefits = *Investment Earnings* + Contributions

- Earnings, more than anything else, determine systems' funded status and the direction of employer rates
 - Changes in investment returns can result in large swings in employer rates
- Earnings currently provide 85 percent of PERS' needed funding
- Employer contributions to provide remaining 15 percent
- PERS has a long-term assumed earnings rate of 8 percent
 - Earnings below 8 percent: employer rates increase
 - Earnings above 8 percent: employer rates decrease
- Annual contributions cover only \$1.2 billion of \$2.5 billion in yearly benefit payments

Revenue Sources (1970-2009)



Plan Investments (as of December 31, 2009)

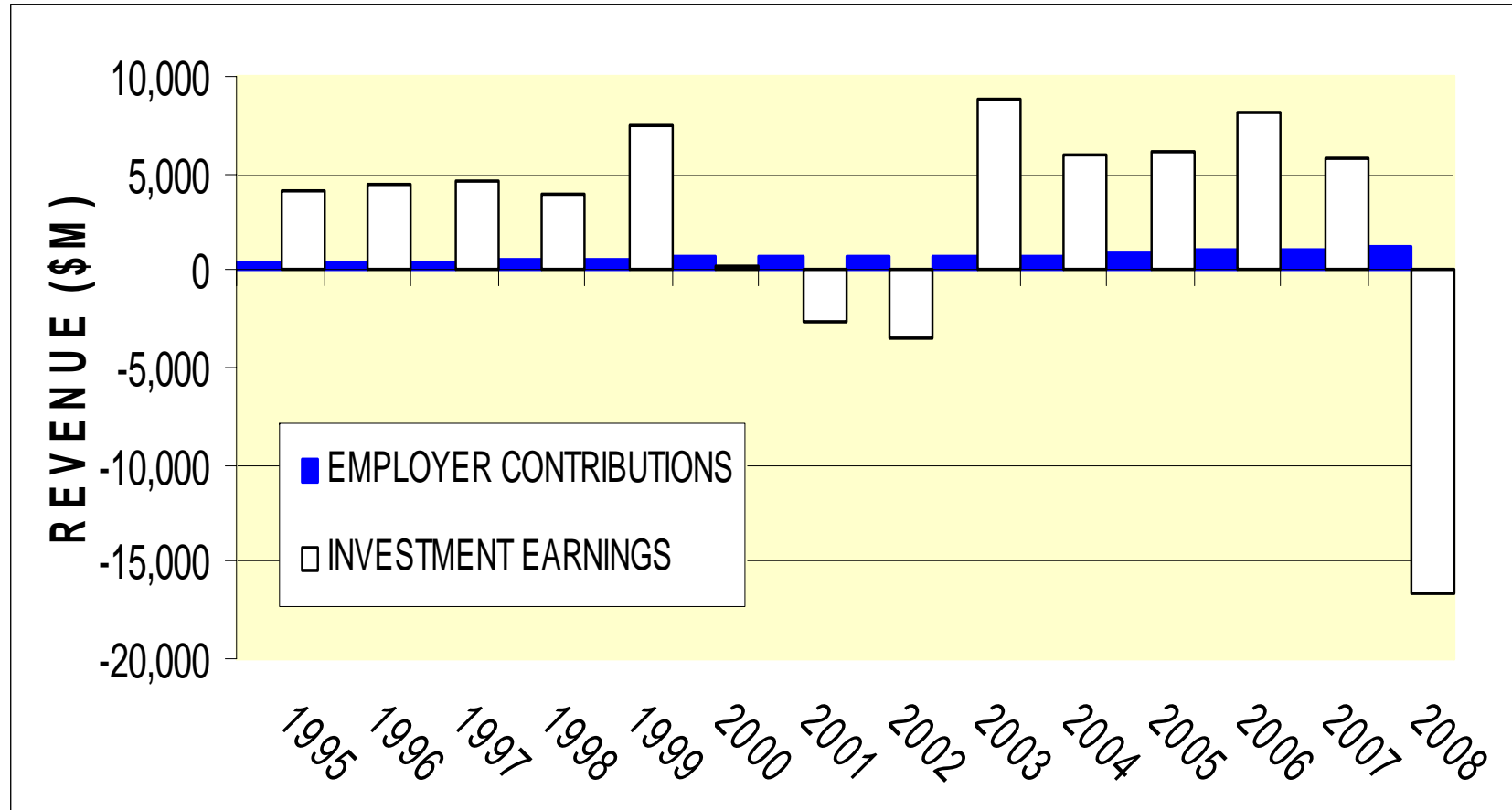


Investment Returns

	2008	2009
Regular account	-26.96%	19.41%
Variable account	-41.78%	35.56%

- 2009 earnings would have needed to be 37 percent, not including the 8 percent assumption, to replace 100% of 2008 losses
- 2009 earnings replaced only 31 percent of 2008 losses

Employer Contributions and Earnings 1995 to 2008



Liabilities/Benefits = Investment Earnings + *Contributions*

- 2009-11 biennial employer rates (effective July 1, 2009) were based on the System's December 31, 2007 valuation and were not affected by the 2008 market downturn
- Systemwide, employer contribution rates in 2009-11 average about 12.4 percent (about 3 percent of payroll less than the 2007-09 biennium) before applying employer side accounts
- Lane County's 2009-2011 employer rate:
 - Tier One/Tier Two rate: 8.18 percent
 - OPSRP General Service: 8.42 percent
 - OPSRP Police and Fire: 11.13 percent
- Rate increases in the 2011-13 biennium are likely 3 to 6 percent of payroll for PERS employers, more for employers with side accounts
 - Lane County's rate increase should be capped at 3 percent based on estimated funded status

Funded Status

What is funded status?

- $\text{Funded ratio (\%)} = \text{assets/liabilities}$
- $\text{Unfunded actuarial liability (UAL)} = \text{liabilities} - \text{assets}$

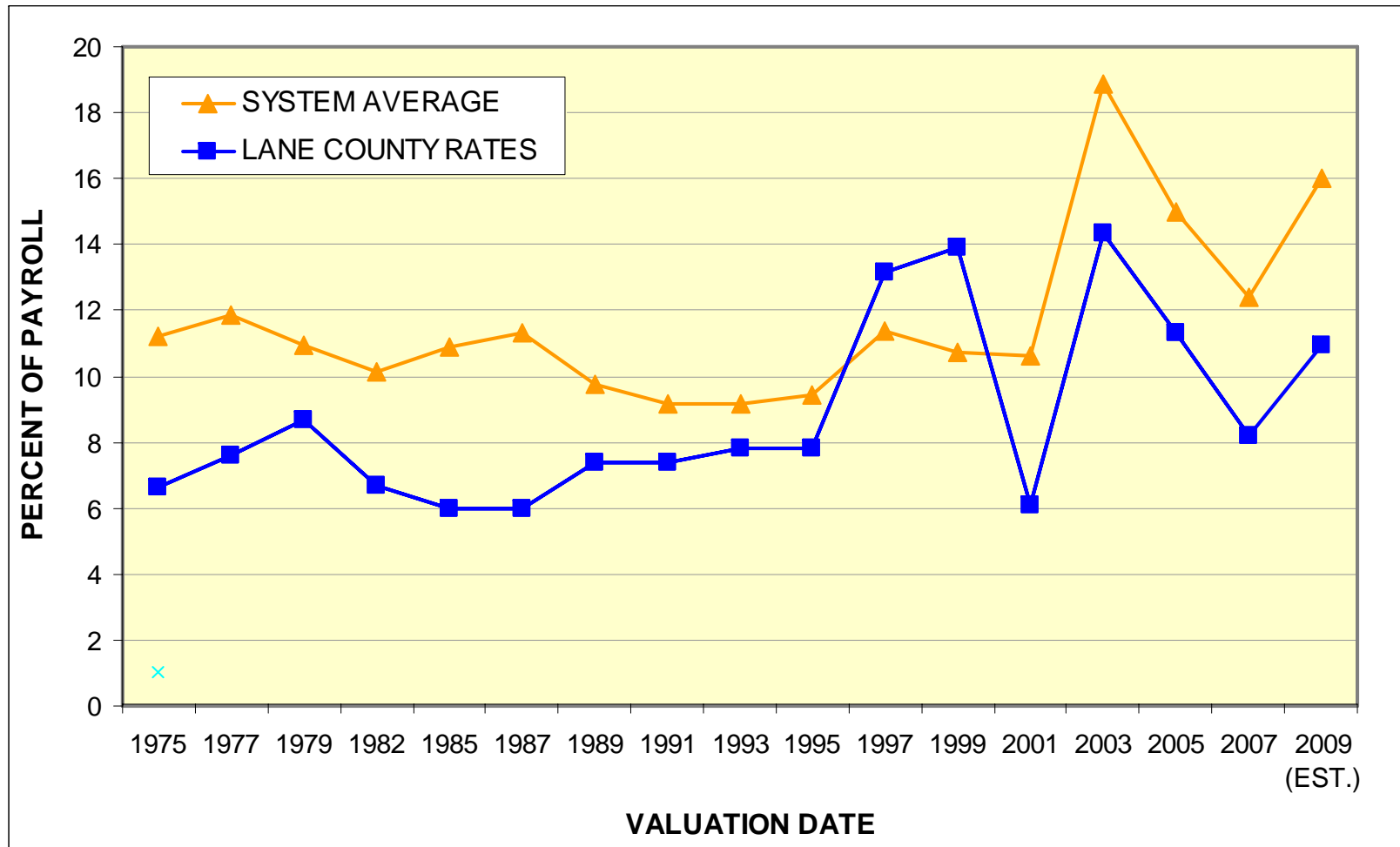
Why is funded status important?

- Standard measure of pension system financial health
 - 80 percent or higher is “well funded” benchmark
 - 80 percent is breakpoint for increasing the contribution rate collar beyond 3 percent

Funded Status (continued)

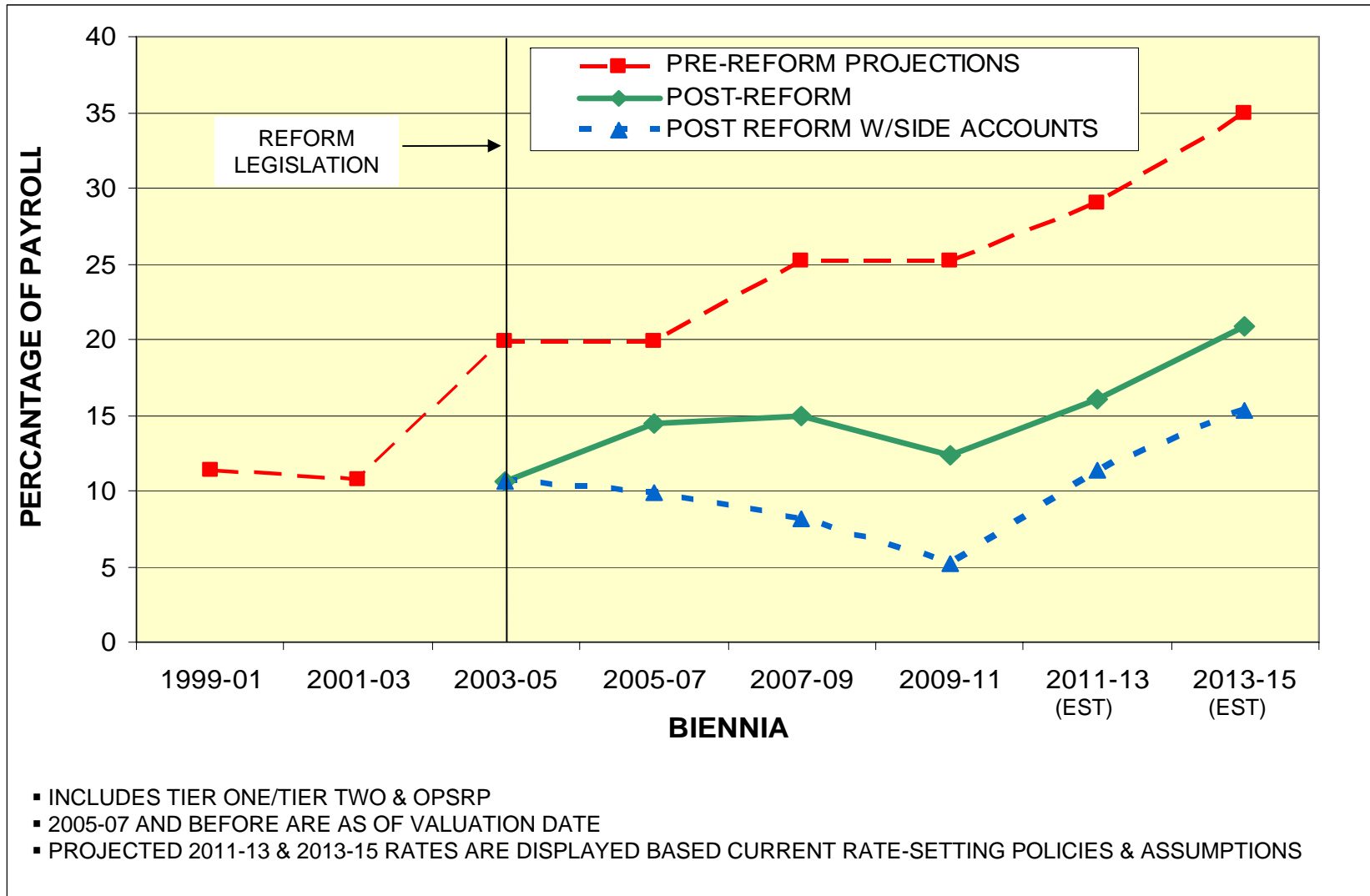
- At the end of 2008, PERS was about 80 percent funded
 - PERS was 65 percent funded before the last market recovery that began in early 2003
 - U.S. public retirement systems averaged an 86 percent funded status in 2007, before the 2008 market downturn
 - Average U.S. public retirement system funded status was below 65 percent at the end of 2008
- With 2009 earnings of about 19 percent, PERS' funded status is estimated to be about 85 percent as of December 31, 2009

Historic Lane County Tier One/Tier Two Contribution Rate vs. System Average



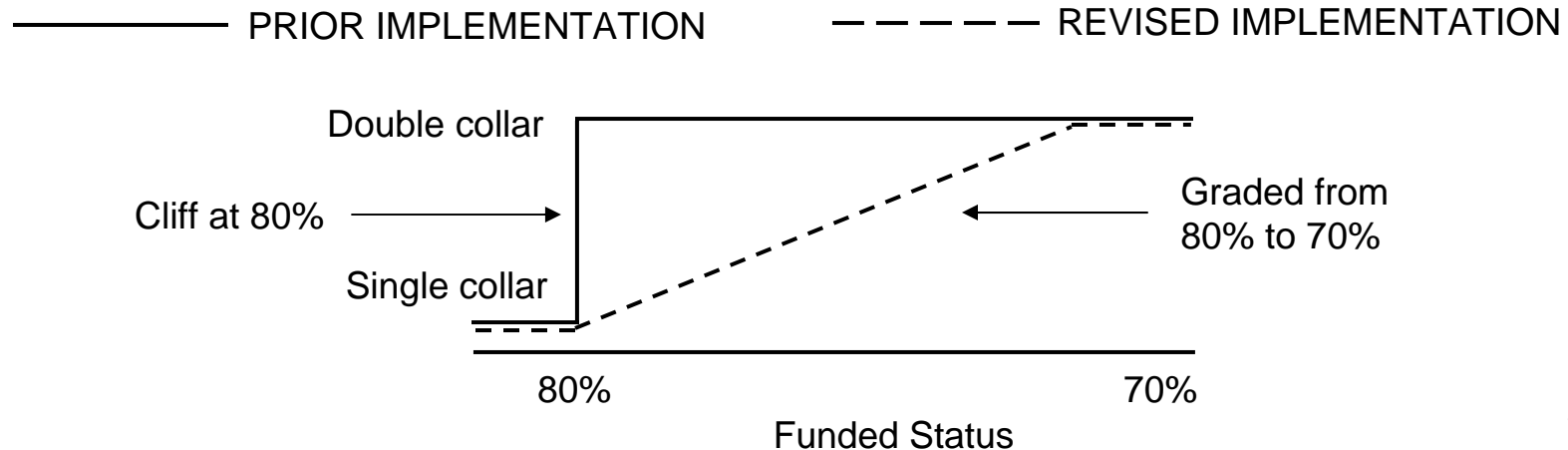
- Lane County's funded status was 79.86 percent as of December 31, 2008
- We estimate that the entire system, on average, gained 4 to 5 percentage points in funded status in 2009
- If Lane County mirrors the system as a whole, its funded status would be in excess of 80 percent as of December 31, 2009

PERS Employer Rates: Pre-Reform Projected vs. Post-Reform Actual



Revised Rate Collar Implementation

- At its January 29, 2009 meeting, the PERS Board revised the rate collar implementation for the 2011-2013 biennium
- The base employer rate will increase incrementally from 3 to 6 percent of PERS-covered payroll based on the employer's rate setting funded status on a sliding scale from 80 to 70 percent funded
- Eliminates the arbitrary cliff increase at 80 percent funded status and better aligns rate increases with an employer's funded status
- Lane County will not be affected by this change as its estimated funded status will be above 80 percent



Employer Rate Safeguards

- Oregon Investment Council (OIC) operates on a long-term investment strategy
- Unfunded liabilities are amortized over 20 years, allowing investments to recover from periodic losses
- A rate collar moderates employer rate increases, which generally limits biennial increases and decreases to no more than 3 percent of payroll, but allows up to 6 percent based on funded status
- Employer contribution rates take into account the compounding benefit of having those funds in the system over the member's career, generating investment returns over time to pay benefits

Economic Impact

- PERS benefits paid to Oregonians in 2009: over \$2.5 billion; approximately \$283 million is paid to retirees in Lane County
- Total increase in Oregon economic output: \$3.3 billion*
- Oregon jobs supported: 30,678*
- Wages of Oregon jobs supported: \$900 million*
- Estimated income taxes paid by PERS retirees in Oregon: \$110 million*

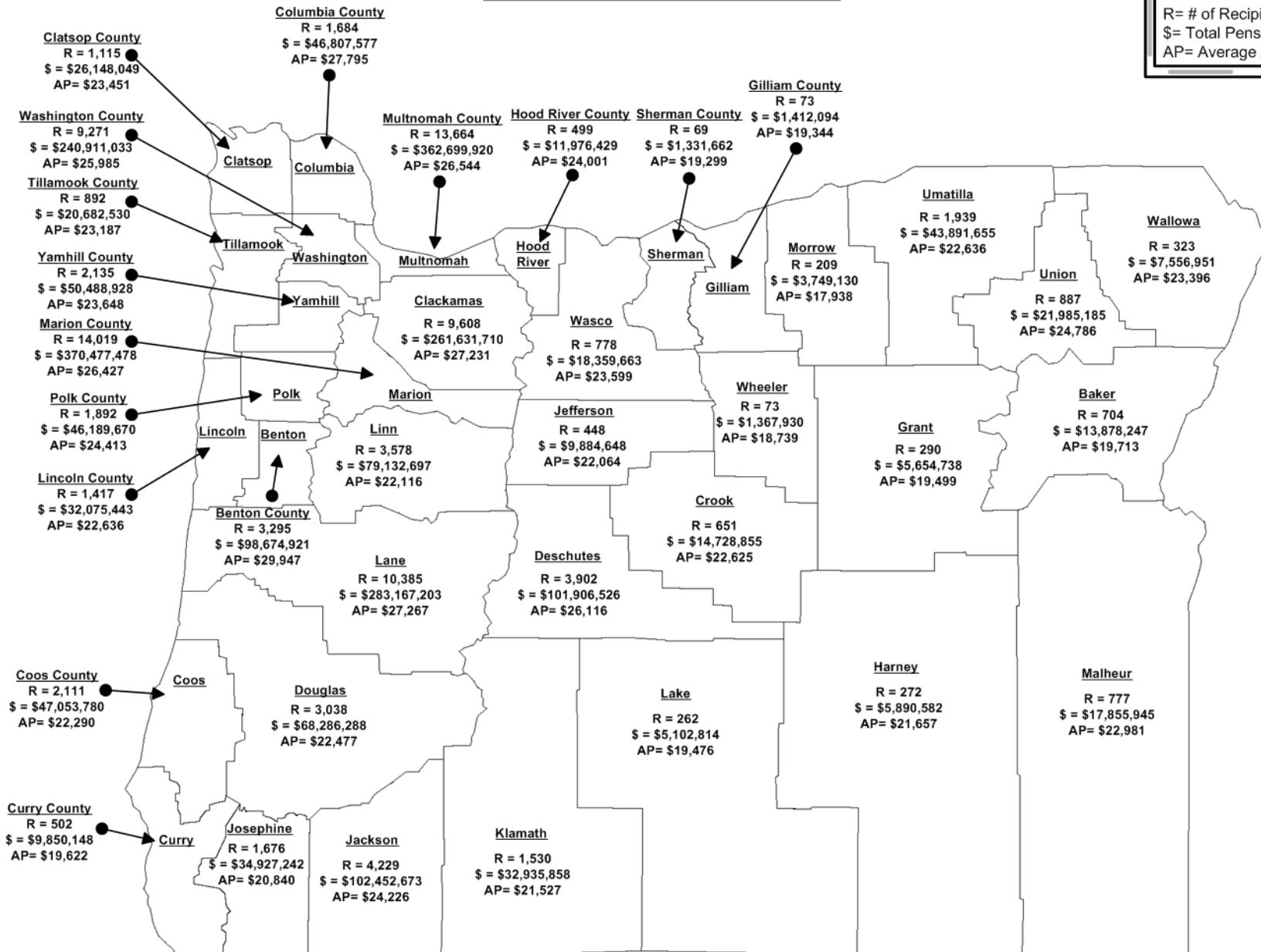
* As of 2008, based upon economic multipliers provided by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA)

Total Benefit Payments by County

1/25/2010 – Data Source: IRSM File for the 2009 Tax Year

LEGEND

R= # of Recipients on Pension Roll
 \$= Total Pension Roll for the County
 AP= Average Annual Payment



Public Employees Retirement System

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<http://oregon.gov/PERS>