

# **Oregon PERS Overview**

**A Presentation to the  
Lane County Association of PERS Retirees**

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# Outline

- PERS System Overview and Agency Responsibilities
- Program History and Recent Changes
- Current Program Status
- Reform
- Benefit Levels
- Strunk/Eugene Project
- Agency Challenges

# PERS System Overview and Agency Responsibilities

- PERS provides retirement, death, and disability benefits for approximately 95 percent of all Oregon public employees, serving about 210,000 active and inactive members working for more than 870 public employers
- PERS' retirement plan has four major components: Tier One, Tier Two, and the Oregon Public Service Retirement Plan (OPSRP) Pension Program and the account-based Individual Account Program (IAP)
- PERS also administers a IRC 457 Deferred Compensation program, known as the Oregon Savings Growth Plan (OSGP), and a post-retirement health care benefit program. Approximately 19,000 participants have saved nearly \$1 billion through OSGP and approximately 50,000 retirees and dependents participate in PERS retiree health insurance plans

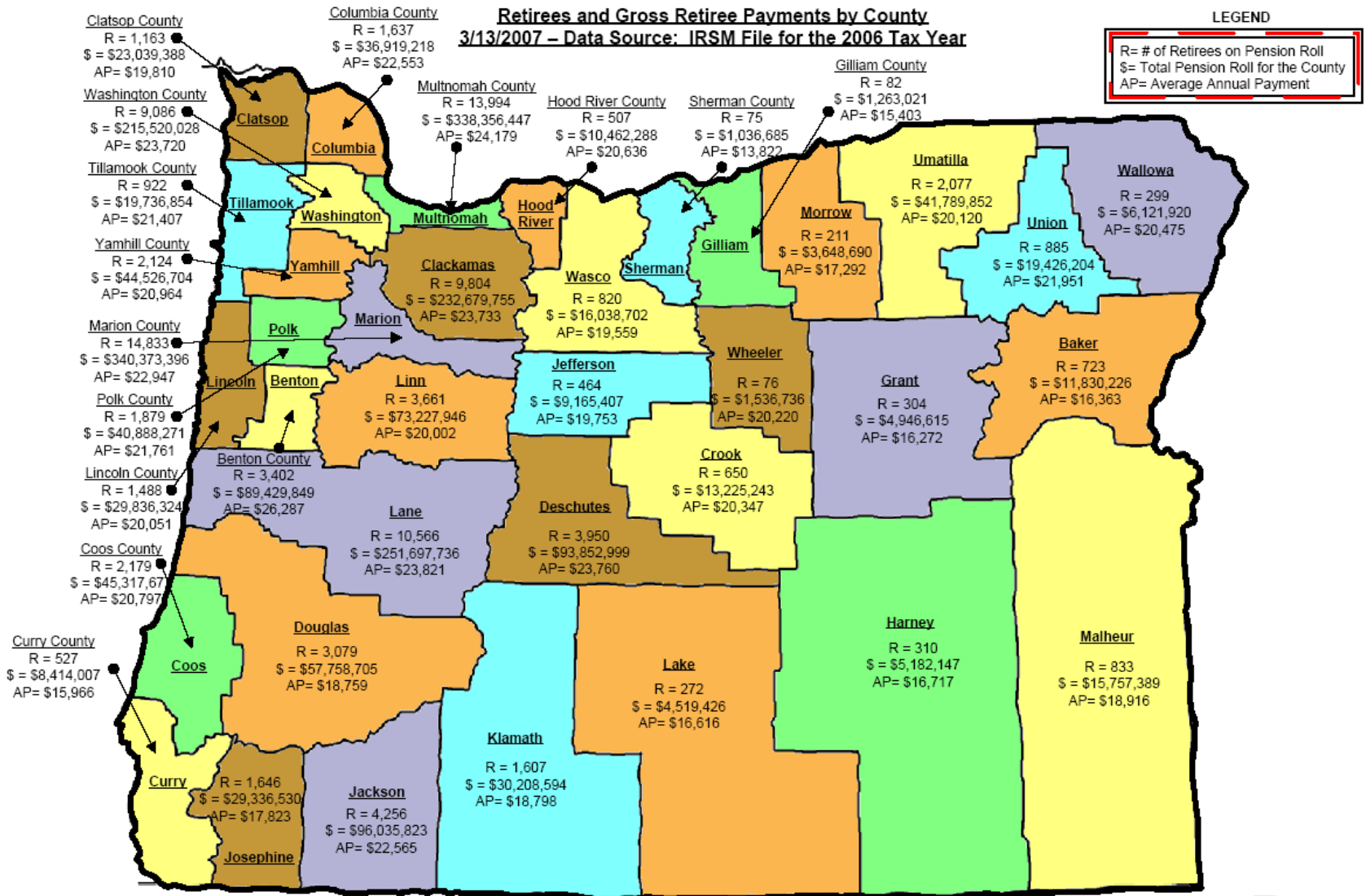
# **PERS System Overview and Agency Responsibilities (continued)**

- In early 2003, PERS had a projected unfunded actuarial liability (UAL) of more than \$17 billion, and was only 65 percent funded. Due to PERS reform, investment performance, and timely issuance of pension obligation bonds, PERS is now 104 percent funded with assets exceeding liabilities by \$1.75 billion
- As of December 31, 2006, the PERS fund totaled \$60.7 billion making it one of the largest public or private retirement funds in the nation
- The Oregon Investment Council invests fund assets on behalf of the trust. In the past three years, the PERS fund has ranked near the top in investment returns for public funds with assets greater than \$10 billion

# **PERS System Overview and Agency Responsibilities (continued)**

- Investments generated more than 85 percent of PERS revenues in 2005, with the remainder from employer and member contributions. Employer rates for 2007-09 will average about 15 percent before adjusting for side account offsets and 8.1 percent after adjusting for offsets. Member contributions rates are set in statute at 6 percent of covered salary
- PERS pays benefits to approximately 110,000 retirees, injecting more than \$2.5 billion into the Oregon economy annually. The average annual benefit for those who retired from July 1, 1996 - June 30, 2006 is \$22,500

# Benefit Distribution by County (2006)



# PERS Program History and Recent Changes

- 1946: PERS established by Legislature
- Late 1950s: Retiree Health Insurance Program established
- 1977: statute authorizes deferred compensation plan for state employees; first deferral made to Oregon Growth Savings Plan in 1980; program administration transferred to PERS in 1991
- January 1, 1996: Tier Two created with different benefit structure from Tier One
- 2003 PERS reform:
  - Statutory earnings crediting restrictions
  - Updated mortality factors
  - New pension program - Oregon Public Service Retirement Plan (OPSRP) pension program for hires after August 28, 2003
  - Redirected all future member contributions to Individual Account Program, effective January 1, 2004

# PERS History and Changes (continued)

- March 2005: Oregon Supreme Court's Strunk decision overturned 2003 reform provisions that limited earnings crediting to Tier One member regular accounts (instead those accounts must receive the assumed earnings rate, 8 percent, credited each year) and that “froze” retired members’ cost-of-living-adjustments (COLAs) to recover the 1999 earnings over-crediting. Balance of reform package (updated actuarial factors, earnings crediting restrictions, and redirection of member contributions to the IAP) was upheld
- August 2005: Oregon Supreme Court issued its decision in the City of Eugene case and ruled that the Settlement Agreement and 2003 PERS reform legislation resolved the issues in that case; Settlement Agreement requires PERS to reallocate 1999 earnings to Tier One member regular accounts at 11.33 percent instead of 20 percent
- December 2006: Ninth Circuit Federal Court of Appeals issued decision upholding dismissal of federal law challenges to 2003 reform legislation



# Current Program Status

- For approximately 50 years, PERS administered one program with some legislative changes
- Added three programs (Tier Two, OPSRP Pension Program, and IAP) in last decade; two of them in the last three years
- PERS reform bottom line: redirection of member contributions, earnings crediting restrictions, updated mortality factors, and new OPSRP program combined to stabilize liabilities and improve cost predictability as substantiated through financial modeling test results and post-reform system-wide valuations performed by PERS' actuary, Mercer
- State Supreme Court rulings in the *Strunk* and *Eugene* cases in 2005 and Ninth Circuit Federal Court of Appeals ruling in the *Robertson* case in December 2006 provided program certainty; we now know what programs, products, and services need to be provided and can focus on the continuous operational improvements required to provide them in the most cost-effective and efficient manner

# PERS Reform Structural Changes

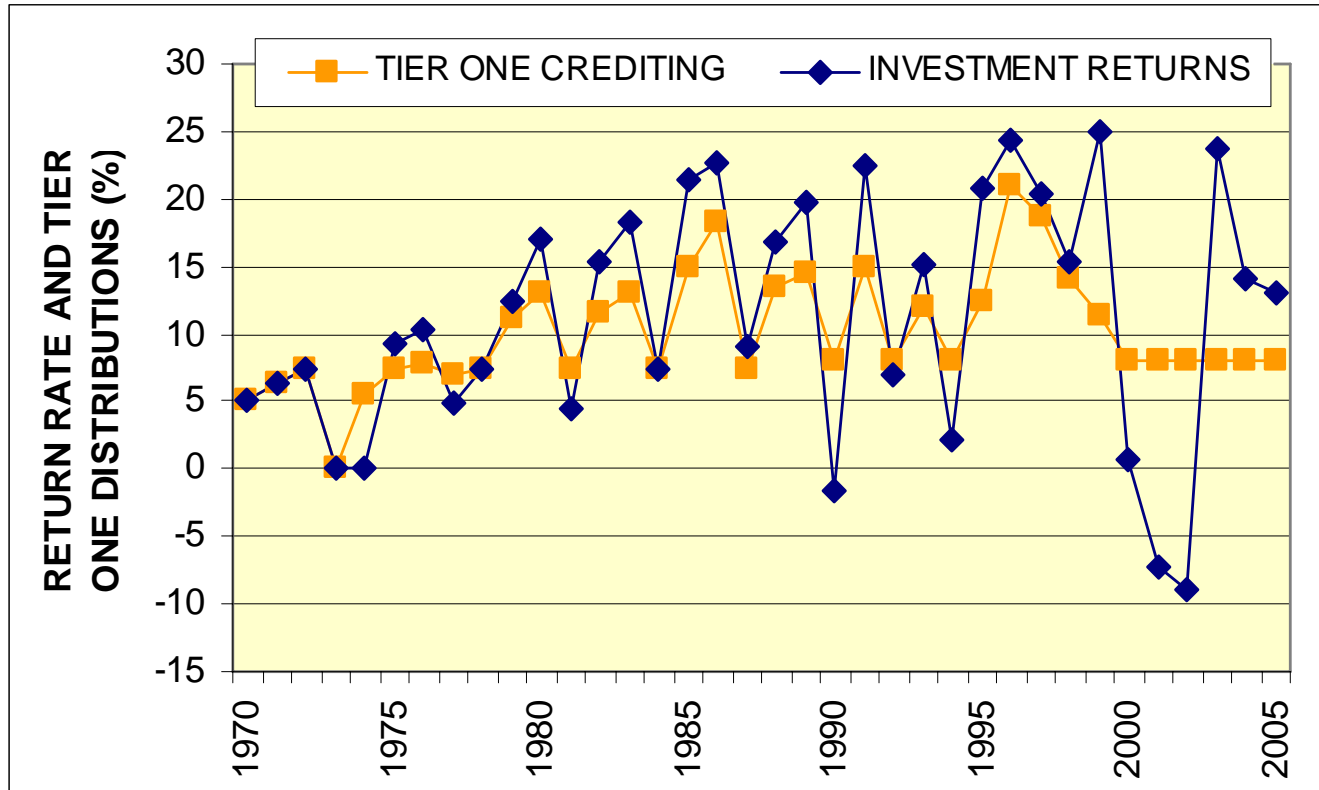
## 1. Redirection of member contributions

- 6% member contribution no longer increases Tier One/Tier Two account balances and/or pension liabilities (now goes into IAP account; this reduces future liability growth and related investment risk for employers)
  - Prior to Reform, most recent retirees received the Money Match benefit calculation (growing from 20% of retirees in 1989 to more than 80% of retirees in 2002)
  - With Reform, virtually all Tier Two benefits and approximately 40% of Tier One benefits are expected to be paid under the Full Formula benefit calculation method over the life of this closed group
  - IAP will provide individual account market-based benefit funded through accumulation and investment of member contributions over members' careers. This benefit is in addition to the member's Tier One/Tier Two or OPSRP pension program benefits

# PERS Reform Structural Changes (continued)

## 2. Statutory earnings crediting restrictions

- Changes in statute regarding Tier One Rate Guarantee Reserve requirements reduced likelihood of crediting more than 8% annually to Tier One accounts which further stabilized liabilities



# PERS Reform Structural Changes (continued)

## 3. Updated mortality factors

- Actuarial equivalency factors (mortality tables) required to be kept current; recognizes that people are living longer and receiving a benefit for a longer time

## 4. New defined benefit pension program

- New Oregon Public Service Retirement Plan (OPSRP) for public employees hired on or after August 28, 2003 preserves defined benefit structure but with reduced benefits and costs

# PERS Reform: Bottom Line

**Redirection of member contributions, earnings crediting restrictions, updated mortality factors, and new OPSRP program combined to stabilize liabilities and improve cost predictability as substantiated through financial modeling test results and post-reform system-wide valuations performed by PERS' actuary, Mercer**

# Current Benefit Levels

Retirement Benefit for a Full Career (30 years) Based on Replacement of Final Average Salary (FAS)				
	Money Match	Full Formula	OPSRP	IAP
<b>Percent of FAS replaced</b>	Replacement ratio in 2004 was 79%  (replacement ratios have declined since 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)	~ 15-20%  (earns market rate; member assumes all investment risk)

# *Strunk/Eugene* Project Status

- PERS is pursuing repayment of benefit overpayments made as a result of 1999 earnings crediting. Based on the Settlement Agreement in the *City of Eugene* case, the earnings crediting rate for Tier One member regular accounts in 1999 has been reallocated at 11.33 percent, instead of the 20 percent that was originally credited
- Account balances for active and inactive members have already been adjusted. Adjustments for retirees and other affected benefit recipients will be calculated and made through June 2009
- PERS sent notice and the Board Order to affected benefit recipients in March 2006
- Repayment can be in lump-sum or using the actuarial reduction method that will calculate the recovery over the expected duration of the benefit payment stream and apply the reduction for the duration of that benefit payment stream

# Strunk/Eugene Project Timeline

<u>BENEFIT TYPE</u>	<u>BENEFIT ADJUSTMENT TIMELINE</u>
Estimated benefits (convert to actual benefits)	Dec. 2005 – Mar. 2007
<b>Recipients with annuity payments</b>	
Divorce	Apr. 2006 – June 2009
Non-COLA freeze benefits (the group of benefit recipients not affected by the COLA freeze effective July 1, 2003)	Oct. 2006 – July 2007
COLA freeze benefits (the group of benefit recipients affected by the COLA freeze effective July 1, 2003)	Dec. 2006 – June 2009
Pre-2000 lump-sum installment retirements (final payment rec'd)	Apr. 2007 – Dec. 2007
Death benefits (beneficiaries)	Jan. 2007 – June 2009
Police & Fire units	Apr. 2007 – June 2009
<b>Recipients who had a lump sum payment(s)</b>	
Lump-sum benefits	Apr. 2007 – Dec. 2007
Total lump-sum benefits	Mar. 2007 – Dec. 2007
Death benefits (post-retirement benefits; beneficiaries)	Jan. 2008 – June 2009
Withdrawals (non-retirees)	Oct. 2007 – Dec. 2008 (estimated)

NOTE: Some accounts in each category will be delayed due to data cleanup issues, eligibility determination, etc.



# PERS 2006 Program Transactions

## Employer Reporting

Activity	Quantity
Number of employers reporting	871
Number of employer reports received	11,882
Number of member records received	2,748,302

## Member Annual Statements

Type	Quantity
Tier One/Tier Two	163,000
OPSRP Pension Program	28,700
Individual Account Program	185,000

# PERS 2006 Program Transactions (continued)

## Member Transactions

Activity	Quantity
Retirements – Tier One/Tier Two	5,050
Retirements – IAP	2,375
Retirements – OPSRP Pension Program	0
Retirements – contests/appeals (3-year average)	107
Withdrawals – Tier One/Tier Two	2,766
Withdrawals – IAP	2,046
Purchases – Tier One/Tier Two	3,091
Deaths (pre and post retirement death benefits processed)	3,235
Divorces: Decrees received	1,058
Retirement calculations for members/alternate payees	657
Pre and post divorce retirement estimates	578
Disability: Disability applications	359
Periodic reviews of existing cases	598
Retirement calculations	204
Death, Divorce, Disability – contests/appeals (3-year average)	53

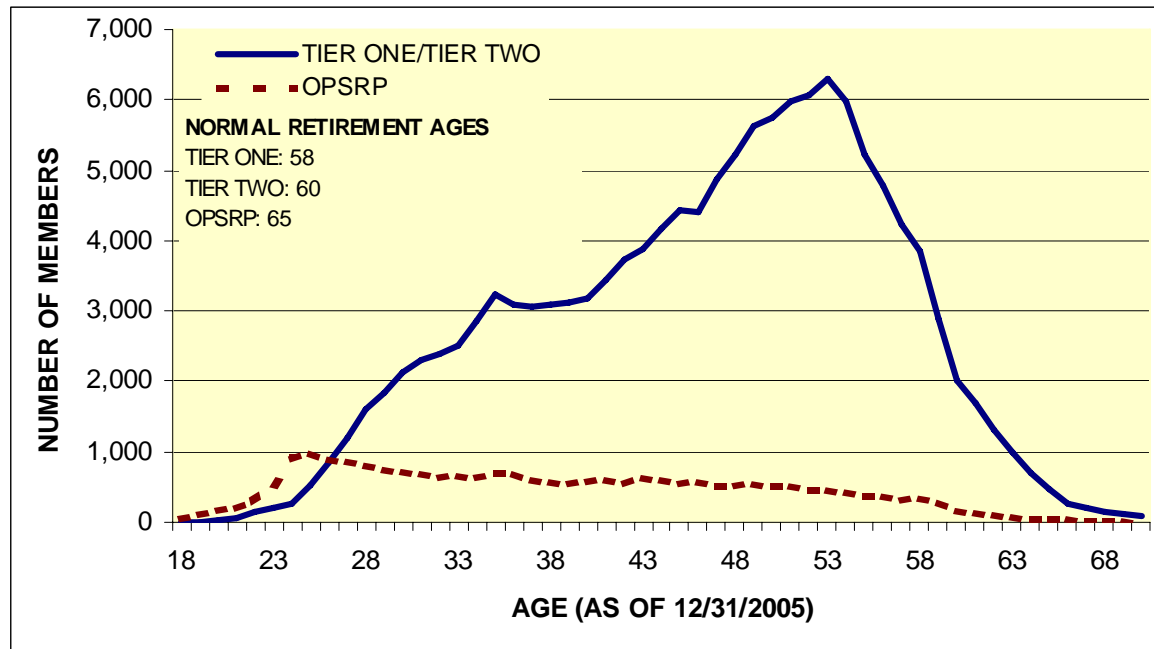
# PERS 2006 Program Transactions (continued)

## Member and Employer Customer Service

Type	Quantity
Telephone calls (incoming/outgoing)	234,000
Faxes (incoming)	52,461
Group presentation attendance	17,532
Emails (incoming)	91,351
Letters	15,858
Website visits	900,000
Written benefit estimates	10,250
Website calculator benefit estimates	27,000

# Agency Challenges

- Member demographics: 28 percent of PERS members are eligible to retire; this places increased demand on near-retirement services including the call center, benefit estimates, group presentations, and website. Members also request assistance completing retirement forms. Membership eligibility, service time, and contributions issues need to be resolved with employers



# Agency Challenges (continued)

- Workload associated with new programs: With the plan changes under PERS reform, PERS now administers four major retirement programs (Tier One, Tier Two, OPSRP Pension Program, and IAP), pays at least two retirement benefits or two withdrawal benefits, and maintains at least two accounts for each member with associated annual statements
- Ongoing litigation: PERS currently has seven lawsuits pending, or on appeal, and about 40 contested cases or reviews that require staff resources and have the potential to impact operations
- Simultaneous staffing of special projects and day-to-day operations: time demands on subject-matter experts for special projects draw them away from operations; potential impact on service delivery
- IT system bridging and data migration: operations require bridging between legacy RIMS system and new jClarety system until RIMS Conversion Project and data migration is completed in 2009; potential impacts on service delivery efficiency

# Agency Successes

- Overall success of PERS reform legislation and related program implementation in stabilizing and reducing employer rates, improving funded ratio, eliminating unfunded liability, and ensuring long-term system sustainability
- Administrative support of PERS Board in bringing needed discipline to the system through conservative earnings crediting and reserving practices, reduced amortization periods, and use of fair market value valuations and actuarial methods to improve system transparency and accountability
- Remediation and restructuring of Individual Account Program (IAP) to correct account balances, simplify earnings crediting and expense administration, enable prior-period adjustments, and enhance transaction processing

# Agency Successes (continued)

- Streamlined and improved employer reporting through technology enhancements, increased employer outreach and training, and restructuring of employer relations teams. Reduced employer accounts receivable from 82 employers owing \$2.1 million to 14 employers owing \$250,000
- Completed Strunk/Eugene account balance adjustments for active and dormant members; developed comprehensive business plan and entered normal production operations for Strunk/Eugene project to make required benefit adjustments and recover remaining overpayments from some 44,000 benefit recipients
- Completed Phase 1 of the jClarety IT system implementation project (HB2020). Deployed the first two modules of Phase 2 (RCP) in 2006 (a third module is scheduled for deployment in May 2007). Project remains on budget

# Agency Successes (continued)

- Oregon PERS was nationally recognized by PlanSponsor magazine as the 2007 Public Plan Sponsor of the Year for closing its \$17 billion funding gap
- 2007-09 agency budget provides face-to-face retirement assistance