PERS Update

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PERS Oregon Public Employees Retirement System

PERS Membership, Retirements, and Benefits

- 171,000 active members; OPSRP (new program in 2003) now has the largest proportion of active members (46%)
- 118,000 retired members/beneficiaries receiving monthly benefits
- 1 in 12 Oregonians is receiving or will receive a PERS benefit
- Average 6,000 retirements per year (peaked at 12,500 in 2003); about 8,300 retired in 2011; more than 70,000 members are eligible to retire
- Average age at retirement: 59
- Average years of service at retirement: 22
- Average annual benefit for all current retirees: $27,156
- Average annual benefit for 2011 retirees: $32,064 (50% replacement rate)
- Average annual benefit for 2011 retirees with 30 years service: $47,880 (74% replacement rate)

Benefit Funding and Accrued Liabilities

Basic Pension System Funding Formula:

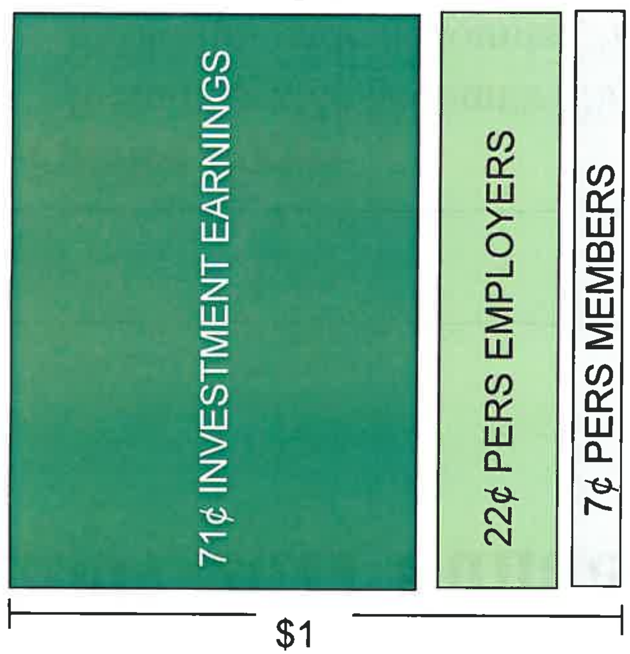
Benefits = Contributions + Earnings

As of December 31, 2011, this formula was out of balance by

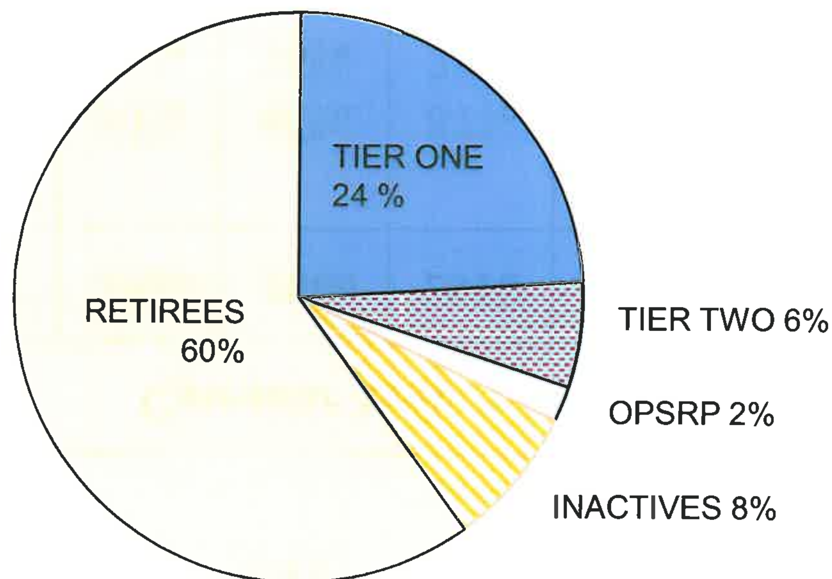
$16 Billion

FUNDING SOURCES (1970-2010)

Money for benefit payments comes from three sources



ACCRUED LIABILITIES



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2007-2011 Funded Status and UAL

	Calendar Year				
	2007	2008	2009	2010	2011
Funded Status					
Including side accounts (%)	112%	80%	86%	87%	82%
Excluding side accounts (%)	98%	71%	76%	78%	73%
Unfunded Actuarial Liability (UAL)					
Including side accounts ($ billion)	$ -6.1*	$11.0	$8.1	$7.7	$11.0
Excluding side accounts ($ billion)	$1.5	$16.1	$13.6	$13.3	$16.3

- Fund value as of September 30, 2012 = $59.7 billion
- Year-to-date regular account returns = 10.84%

* This is a surplus.

From December 31, 2011 System Valuation

PERS

PERS Cost Increase Challenge

- Contribution rate increases will cost employers about $900 million more in the 2013-15 biennium

Employer	Approximate Increase ($M)
State agencies (including the Oregon University System)	$240
K-12 schools	$400
Local governments and other entities	$260
TOTAL	**$900**

PERS Cost Containment Proposals

- The PERS Board is directed to provide policy advice to the Legislative Assembly on proposed changes to PERS

- Four key principles suggested for reviewing proposals to contain PERS costs:

  1. Focus on major cost drivers if seeking real cost savings

  2. Spread the burden across affected groups

  3. Keep it simple: avoid unintended consequences, including altering retirement decisions

  4. Enhance the system's credibility by addressing perceived inequities

PERS Oregon Public Employees Retirement System

PERS Cost Containment Examples: Legislation

1) Limit COLAs for current and future retirees to the first $24,000 of annual benefits to reduce costs but protect low and moderate income retirees. Estimated to save 4.4% of payroll or some $810 million over the biennium

2) Reduce 6% member IAP "pick-up" to 3%. Estimated savings of about 0.4% of payroll and $74 million per biennium

3) Eliminate the Oregon state income tax "offsets" from any Tier One PERS benefit payment not going to an Oregon resident. Estimated savings of about 0.3% of payroll or about $55 million per biennium

4) Statutorily define the Money Match benefit annuitization rate at 6% (instead of using the assumed earnings rate, that is currently 8%). Estimated savings of about 0.8% percent of payroll or about $147 million per biennium

PERS Oregon Public Employees Retirement System

PERS Cost Financing: Potential Board Actions

- The PERS Board, as part of its regular rate-setting process, will review the long-term assumed earnings rate in spring 2013
  - Decreases in the capital market return expectations will likely dictate lowering the assumption (currently 8%)
  - Board action to use a 7.5% assumption would <u>increase</u> employer rates by 3% of payroll or some $552 million per biennium
- To mitigate that rate increase, the Board could consider other changes to system financing:
  - Extend the Tier One/Tier Two UAL amortization period from the current 20 years to up to 30 years (would <u>decrease</u> employer rates by 2.9% or some $534 million per biennium)
  - Impose a "hard" rate increase cap of 3% of payroll (spreading increases over more biennia and delaying progress towards full system funding)