OREGON PERS

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EMPLOYER NEWS

AUGUST 2021

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- SB 1049 programs
- PERS employer website

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Rate-collar methodology updated

At the July 23, 2021, PERS Board meeting, the board agreed with actuary Milliman's proposal to update the rate-collar method. The new methodology will be applied to the 2023–25 rates beginning with the 2020 advisory valuations and the 2021 rate-setting valuations, but is not expected to affect rates for several years.

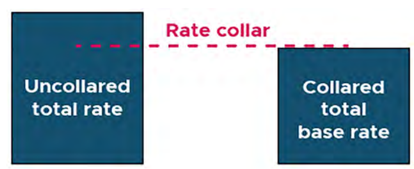
It's time for an update

According to Milliman's presentation at the [July 2021 PERS Board meeting]:

- The current rate-collar parameters were designed in 2005–2006, when system-wide rates were lower.
- The rate collar uses 20% of the current rate as a starting point, which is a much larger amount now than it was in 2005–2006.
- Rate collaring for independent employers should be different than rate collaring for pooled employers. Independent employers experience greater volatility in their rates because their liabilities are not pooled and they tend to be smaller organizations (many have fewer than 10 employees).

Current rate-collar methodology

The current policy limits the sum of two rate components: unfunded actuarial liability (UAL) rate and normal cost rate. It limits the change in base rates to 20% of the current base rate (normal cost and UAL only) or 3% of payroll. This allows rate increases to be spread out over multiple biennia rather than causing a rate spike in one biennium.



New rate-collar methodology

The new methodology will limit only the UAL rate rather than the sum of normal cost rate and UAL rate. The collar width varies by pool, as detailed below.

Tier One/Tier Two UAL rate (State and Local Government Rate Pool (SLGRP) and School Districts Pool)

- Collar width is 3% of pay.
- UAL rate is not allowed to decrease until the pool is at least 90% funded (excluding side accounts), using a phase-in feature from 88% to 90% funded status to avoid an abrupt contribution-rate change. For example, if the SLGRP pool reached an 88% funded rate, the UAL rate would decrease 1%, as shown on the chart on the next page.

Continued

Rate pool funded status	Allowable UAL Rate Decrease: Tier One/Tier Two Schools/SLGRP	Allowable UAL Rate Decrease: OPSRP
87% or less	0.00%	0.00%
88%	1.00%	0.33%
89%	2.00%	0.67%
90% or more	3.00%	1.00%

Source: Milliman

OPSRP UAL rate (all employers)

- Collar width is 1% of pay.
  - OPSRP rate collar is narrower because the OPSRP pool is newer and is amortized over a 16-year period rather than Tier One/Tier Two's 20-year amortization period.
  - The OPSRP collar could be widened over time as the program grows.
- The UAL rate decrease restrictions include a phase-in feature, from 88% to 90% funded status, of the allowable UAL rate decrease.

Independent employers' Tier One/Tier Two UAL rate

Independent employers will have a wider rate collar because of the variety of employer types and sizes and their rate volatility.

- The rate collar is the greater of 4% of pay or one-third of the difference between the collared and uncollared UAL rates at the last rate-setting valuation. The collar width is the only difference between the independent rate collar and the SLGRP and the School Districts Pool rate collar.
- Like the rate collar for the two main pools, the independents' collar is applied on the Tier One/Tier Two UAL rate only.
- UAL rate is not allowed to decrease with full collar until 90% funded (phase-in from 88% to 90%).
- Employers who were not included in the prior rate-setting valuation are exempt from the collar in the current rate-setting valuation (continue existing policy).

Member Choice window opens September 1

MEMBER CHOICE
September 1 to 30

The Member Choice program was established by Senate Bill 1049 to enable Individual Account Program (IAP) participants to change how their IAP account is invested. Normally, each member's IAP is invested in a "target-date fund" (TDF) based on the year they will reach their target retirement age. The farther away the target retirement year, the more risky (but potentially profitable) the fund's investments are. The closer the year is, the safer (but potentially less profitable) the fund's investments are.

Member Choice enables members to choose a target-date fund for their IAP that is based on the amount of risk they prefer, regardless of their target retirement year. This option is available once a year for a one-month window during September. The change goes into effect the January of the following year.

Continued

Key points

- 2021 Member Choice is open September 1 through 30. During that month, members can select a different target-date fund for their IAP in Online Member Services (OMS).
- Only active and inactive members (i.e., members who have not left PERS nor retired) who have an IAP account are eligible.
- Changing to another target-date fund is optional. If members do nothing during the window, they automatically stay in their current fund.
- Members can change their target-date fund option **once** a year. If a member chooses a target-date fund in 2021, they cannot change it again until the 2022 Member Choice election period.
- Changes take effect on January 1, 2022. Investment returns resulting from that change will appear on 2022 member annual statements, which will be sent in spring 2023.
- PERS cannot provide financial advice, but members can contact the Member Information Center for information or help using OMS.

Learn more

- PERS SB 1049 Member Information webpage.
- IAP Target-Date Funds webpage.
- How to use OMS to change your target-date fund.

PERS Board adopts new actuarial assumptions for 2021–23

On July 23, the PERS Board discussed and voted on Milliman's proposed adjustments to actuarial assumptions (e.g., inflation and wage growth) that are used to set employers' contribution rates. The board reviewed financial analyses presented by multiple experts (i.e., Milliman, Oregon Investment Council, and Horizon), including guidance regarding valuations assumptions, assumed rate, and Retirement Health Insurance Account (RHIA) and Retirement Health Insurance Premium Account (RHIPA) before making their decisions.

Valuation assumptions

Assumption	2019 assumptions	2020 proposed assumptions	Board decision
Inflation	2.5%	2.4%	Adopted
Real wage growth	1%	1%	Adopted
System payroll growth	3.5%	3.4%	Adopted
PERS admin expenses	$40.5M	$59M	Adopted

Assumed rate

The PERS Board gave preliminary approval to lower the assumed earnings rate from 7.20% to 6.90%. The board will consider final adoption of the new rate in its next meeting on October 1, 2021.

Continued

The board members agreed with Milliman's view that adjusting the assumed rate to align with projected experience is essential to:

1. Avoid significant UAL accumulation (which would also increase rates for employers in both the long and short term).
2. Conform to actuarial standards of practice.
3. Maintain the long-term health and viability of the plan.

Other factors the board took into consideration were the Oregon Investment Council's real-return rate of 4.5%, the federal inflation rate of 2.4%, and other recommendations made by Milliman.

Rate	Current rate for 2021–23	Proposed rate for 2023–25	Next steps
Assumed rate	7.2%	6.9%	Legislative notice given 30 days before adoption of new rate. Formal adoption of new rate at October 1, 2021, board meeting.

Effects on other rates from reduced assumed rate and other assumption changes

The Milliman chart below compares expected cost increases of keeping the 7.2% assumed rate and adopting the 6.9% assumed rate.

	Assumed return 7.2%		Assumed return 6.9%	
	UAL	Normal cost	UAL	Normal cost
Salary/sick leave/vacation	0.2%	0.4%	0.2%	0.4%
Other assumptions	(0.1%)	0.0%	(0.1%)	0.0%
Assumed return	0.0%	0.0%	1.4%	0.8%
Total	0.1%	0.4%	1.5%	1.2%
Combined total	**0.4%**		**2.7%**	

Source: Milliman

Effect on Money Match

The rate assumption change will lower benefits for 2021–2023 retirements calculated under the Money Match formula.

New RHIA/RHIPA policy

The combination of a shorter amortization period and recent experience gains has dramatically improved the funded status of the RHIA and RHIPA programs in recent years. At the 12/31/2019 valuation:

- RHIA was 159% funded (up from 90% four years prior).
- RHIPA was 87% funded (up from 16% four years prior).

Continued

At the July 23 meeting, the PERS Board approved the following policy for amortizing RHIA and RHIPA when they are in surplus. The new policy will allow RHIA and RHIPA normal cost to be offset by a negative RHIA or RHIPA UAL rate.

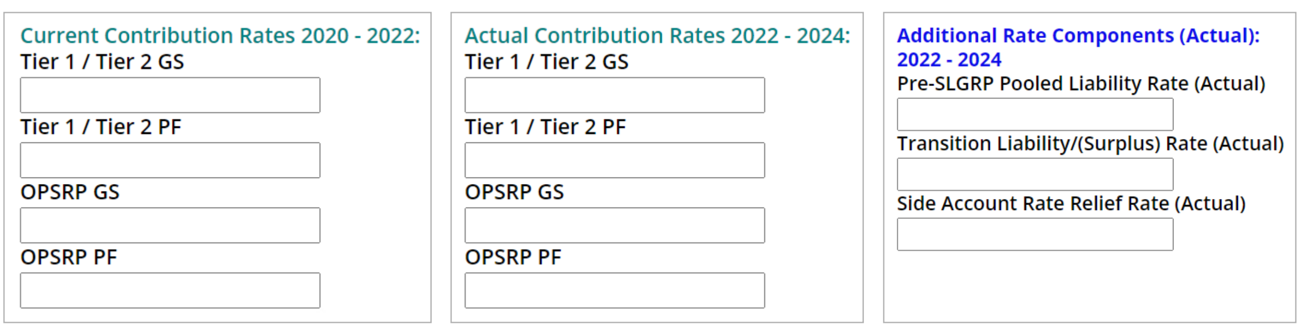
- When funded status is over 100% at a rate-setting valuation, amortize the actuarial surplus over Tier One/Tier Two payroll using a rolling 20-year amortization basis.
- Allow the resulting negative UAL rate to offset the normal cost for the program, but not below 0.0%.
- If either program subsequently falls below 100%, the UAL would then be amortized over combined payroll following the existing 10-year closed, layered amortization policy.

Announcing new Employer Rate Projection Tool

We are pleased to announce PERS' new Employer Rate Projection Tool (ERPT).

Employers asked for a more modern and robust tool than the original Excel-based, downloadable tool that PERS created in 2017. The new tool:

- ✓ Enables employers to see potential effects on their future contributions from changes in factors such as adding a side account deposit (like the old tool).
- ✓ Prefills data based on your employer number, meaning you no longer have to manually enter payroll or contribution rates.
- ✓ Automatically fills in current contribution rates and payroll data to generate a projection of up to 10 biennia of employer contributions.
- ✓ Shows 6-, 10-, 16-, and 20-year amortization schedules for side accounts over $10 million.
- ✓ Is used online rather than being downloaded to your computer.
- ✓ Is a more secure and stable platform.
- ✓ Protects your system by no longer relying on Excel macros.



Try the ERPT

Or enter https://www.oregon.gov/pers/EMP/Pages/Employer-Rate-Projection-Tool.aspx into your browser. We recommend using Chrome for best results.

EDX tip of the month: Membership error

Problem: Suspended record

Error message: "S – member is not eligible to receive contributions on this record."

What went wrong?

You entered contributions for an employee who is in a non-qualifying, part-time position.

Solution: Check three things and make the appropriate adjustment.

1. **Has the employee worked 600 hours or more in that calendar year?**

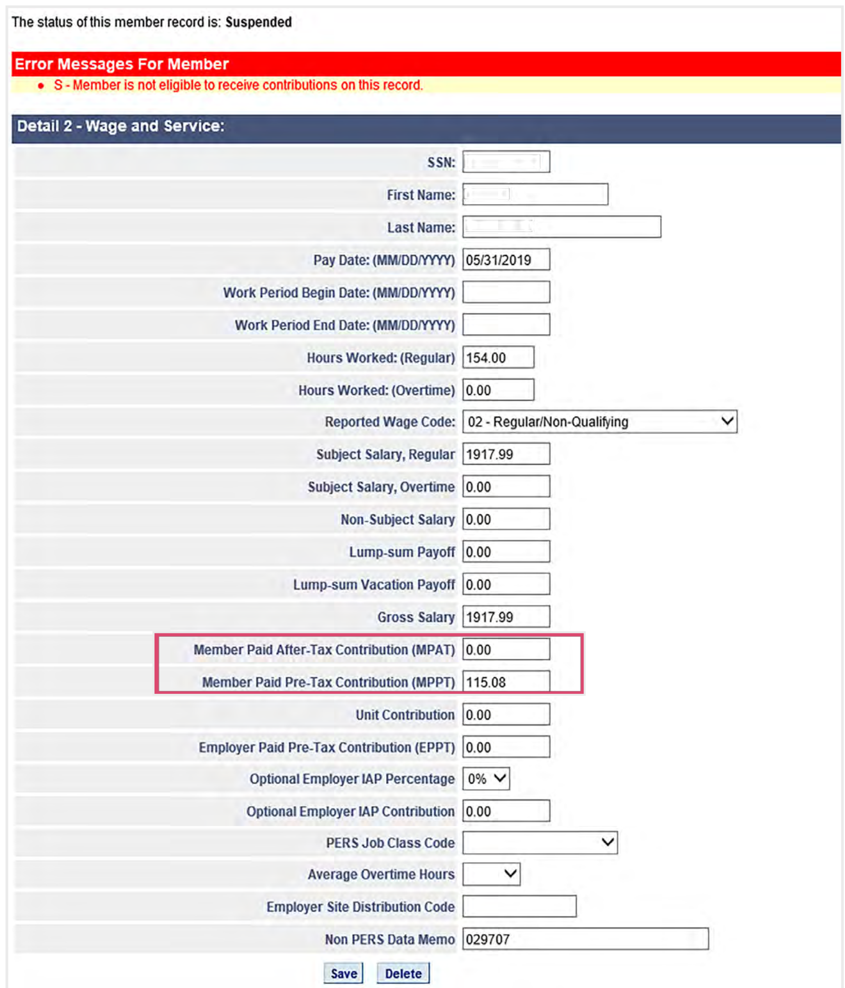
   If yes, submit a demographic correction request (DCR) to change their position type from non-qualifying service to active service and change the wage code to 01 - Regular/Qualifying.

2. **Is the employee working in a qualifying position (i.e., one that requires 600 hours a year or more and qualifies for PERS membership)? Was the hire intent reported incorrectly?**

   If yes, submit a DCR to correct the hire intent from Non-Qualifying to Qualifying and change the wage code from 02 - Regular/Non-Qualifying to 01 - Regular/Qualifying.

3. **Is the correct wage code being used (i.e., did you accidentally select a non-qualifying wage code instead of a qualifying wage code)?**

   If yes, change the wage code and save the record.



The status of this member record is: **Suspended**

Error Messages For Member

- S - Member is not eligible to receive contributions on this record.

Detail 2 - Wage and Service:

SSN:	
First Name:	
Last Name:	
Pay Date: (MM/DD/YYYY)	05/31/2019
Work Period Begin Date: (MM/DD/YYYY)	
Work Period End Date: (MM/DD/YYYY)	
Hours Worked: (Regular)	154.00
Hours Worked: (Overtime)	0.00
Reported Wage Code:	02 - Regular/Non-Qualifying
Subject Salary, Regular	1917.99
Subject Salary, Overtime	0.00
Non-Subject Salary	0.00
Lump-sum Payoff	0.00
Lump-sum Vacation Payoff	0.00
Gross Salary	1917.99
Member Paid After-Tax Contribution (MPAT)	0.00
Member Paid Pre-Tax Contribution (MPPT)	115.08
Unit Contribution	0.00
Employer Paid Pre-Tax Contribution (EPPT)	0.00
Optional Employer IAP Percentage	0%
Optional Employer IAP Contribution	0.00
PERS Job Class Code	
Average Overtime Hours	
Employer Site Distribution Code	
Non PERS Data Memo	029707

Save Delete