OREGON PERS

75 years of serving those who serve Oregon

EMPLOYER NEWS

JULY 2021

QUICK LINKS

- COVID-19 and paid leave
- SB 1049 programs
- PERS employer website

JULY REMINDERS

New rates went into effect for pay dates on or after July 1. They are available on the Contribution Rates webpage.

OPSRP membership began for all December 2020 hires on July 1.

Questions? Contact your ESC representative.

Understanding financial assumptions up for board approval this month

Why they might need to change and what effect that could have on rates

PERS consulting actuary, Milliman, will present assumptions for a vote at the July 23 PERS Board meeting. Every other year, Milliman reviews its actuarial assumptions and methods and proposes potential adjustments to the PERS Board. These changes must be approved by the board before they can be used to set rates.

To help you understand proposed changes, let's dive into those potential changes and how they can affect your future rate.

Rate factors

When determining actuarial assumptions, the actuary combines these factors:

Facts from the past and present	Known demographic and economic factors affecting you, such as unfunded actuarial liability (UAL), your employer pool, retiree healthcare, normal cost, and side account(s).
+	
Assumptions about the future	Projected economic and demographic factors affecting everyone, such as inflation, wage growth, mortality assumptions about your retirees, and PERS administrative costs.
=	
Contribution rate	The percentage rate you will pay (multiplied by your payroll) for the next biennium.

Milliman and the Oregon Investment Council (OIC) have presented information about these factors to the PERS Board over the last few months. On July 23, the PERS Board will determine if it agrees with Milliman's proposed adjustments to actuarial assumptions (e.g., inflation and wage growth) and review the analysis presented by multiple experts (Milliman, OIC, Horizon) to determine if they should change the **assumed rate**.

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Assumed rate is the expected average annual investment return

The assumed rate is a key component in the PERS funding equation. It is used to determine rates, including normal cost and unfunded actuarial liability (UAL), and calculate the system's total UAL.

PERS funding equation

Contributions

Paid by employers and members

Set by PERS Board

+

Earnings

Future returns on invested funds

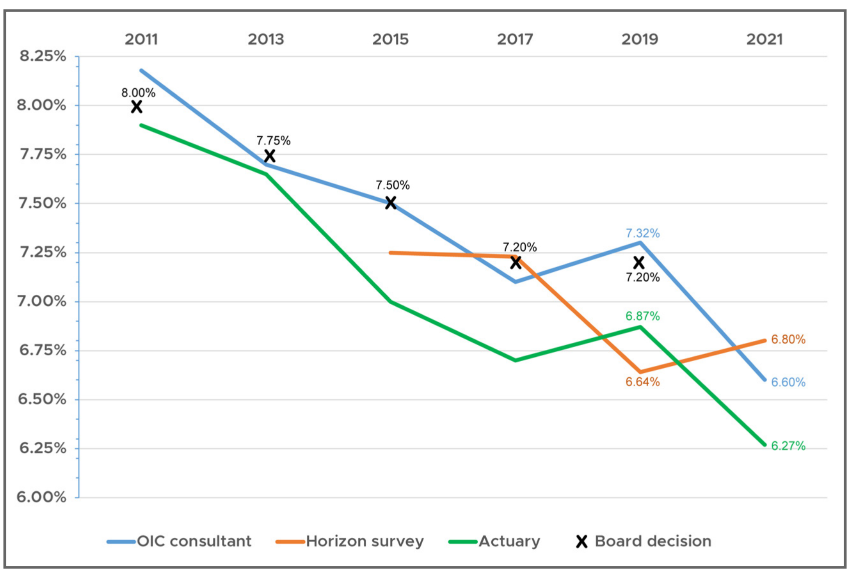
Managed by Oregon Investment Council and Oregon State Treasury

Benefits

Design set by Oregon Legislature

Investment returns from outlook models in current and prior reviews

The sources in the chart below indicate that future returns will continue the downward trend of the last few years. Although recent returns have been strong, future returns are expected to drop.



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Proposed adjustments to current actuarial assumptions

Assumption		Actuary recommendation
Inflation	↓	Reduce the inflation assumption from 2.5% to **2.4% or lower**
Long-term investment returns	↓	Reduce from 7.20% to **7.0% or lower**
Wage growth	=	Real wage growth: remain at 1%
	↓	System payroll growth: decrease from 3.5% to 3.4%
PERS administrative expenses	↑	Increase from 2019 budget of $40.5M to $59M to cover the costs of implementing Senate Bill 1049

How reducing the assumed rate affects the system

Rates	Current rate for 2021–23	Preliminary advisory rates for 2023–25		
Assumed rate	7.20%	7.20%	7.00%	6.80%
Funded status*	72%	73%	72%	70%
UAL* (in billions)	$24.6	$24.3	$26.3	$28.4
Total normal cost rate (employer + member)	11.09%	10.90%	11.44%	12.02%
Tier One/Two UAL rate	13.13%	13.17%	13.93%	14.70%
OPSRP UAL rate	1.69%	1.63%	1.86%	2.09%
Uncollared total base rate	**25.91%**	**25.70%**	**27.23%**	**28.82%**

*Excluding side accounts

This assumption change would also lower benefits for future retirements calculated under Money Match. **However**, the assumed rate is only guaranteed to Tier One members; all other groups receive actual investment returns.

Why reduce the assumed rate?

When the assumed rate lowers, liabilities and contribution rates increase as of the actuarial valuation date.

Although lowering the assumed rate raises rates for employers in the short term, adjusting the assumed rate to align with projected experience is essential to avoid significant UAL accumulation (which will also increase rates for employers in both the long and short term), to conform with actuarial standards of practice, and to maintain the long-term health and viability of the plan.

For example, in 2018, the assumed rate was 7.20%, but the actual investment return was 0.48%. This led to a single-year actuarial investment loss of $3.9 billion. Despite the low return, Tier One members still received the 7.2% assumed rate, which caused a deficit.

Learn more: To attend the board meeting on July 23 or ask questions about your rate, contact PERS Actuarial Services.

75 years — a major milestone for PERS

On July 1, 1946, Oregon launched its first retirement system for public employees. It took nearly 50 years of starts, stops, trials, and errors to create a strong, stable, and enduring retirement system for Oregon's public sector.

Despite the creation of individual retirement programs for police, fire, and teachers, in 1942, only 7.6% of Oregon's public employees were covered by any retirement system (Social Security, passed in 1935, excluded public workers).

Let's take a walk back in time to the early 1900s and trace the long path leading to PERS.

1900	**1902**	City of Portland voters establish the first pension system for fire and police members. The system fails financially.
1910	**1911**	Oregon teachers organize a statewide pension fund. While it marks a beginning of retirement plans for public employees in the state, it does not signal the beginning of a trend, and numerous other proposed retirement plans fail to pass.
	1913	The state establishes the Fireman's Relief and Pension Fund.
	1918	Voters establish the Policeman's Relief and Pension Fund.
1920		
1930	**1933**	The Oregon Legislature passes the Old-Age Pension Act, establishing a pension program for all Oregonians over the age of 70. Employees from both the public and private sector can qualify. Payments are low, however, and the program is short-lived.
	1934	Herman Kehrli, executive director of the League of Oregon Cities, addresses the Portland City Council, saying, "The need for an orderly retirement program in the city service has grown more and more acute and the financial insolvency of the existing system has become obvious."
	1935	Social Security is signed into law, and many employees in private industry breathe a sigh of relief. However, it excludes public employees.
	1939	Gov. Charles Sprague appoints a committee of 25 state and local government representatives to study the feasibility of a retirement program in Oregon.
1940	**1943**	A group of citizens discovers that, according to the January 1942 U.S. Bureau of the Census report, only 7.6% of the public employees in Oregon are covered by some retirement system, while 46% of state and local employees of other states are covered.
	1945	House Bill 344 is presented to the Oregon Legislature. It proposes a retirement system that is open to all public employees; offers separate accounts for each member showing contributions, interest earnings, and deductions; is overseen by the state treasurer; and offers both retirement and disability benefits. On March 17, 1945, the bill passes in the longest legislative session to date.
	1946	The legislation becomes effective July 1, 1946. Oregon benefits from the experiences of existing public employee pension systems and quickly earns a reputation for developing one of the best retirement programs in the country.
1950		

Learn more: Go to the newly updated PERS History.

EDX tip: Voluntary contribution start date

A new employee's voluntary contribution start date cannot be earlier than their membership contribution start date.

New employees have to complete their six-month trial period before their PERS membership begins. During that six-month period, the employee is not yet a PERS member and does not have an Individual Account Program (IAP) account nor an Employee Pension Stability Account (EPSA). No 6% IAP contribution is made until the first full pay period after their contribution start date, which is the first day of their seventh month.

Once the 6% IAP contributions begin, a percentage of that contribution is deposited into that employee's EPSA each time they earn over the monthly salary threshold of $2,535* (the percentage is 0.75% for OPSRP members, 2.5% for Tier One and Tier Two members). Once their membership and IAP contributions begin, they can elect to contribute the redirected amount from their salary into their IAP to bring their monthly IAP contribution to 6%.

Example: New-hire Bakari begins working on 3/1. His PERS membership will begin on 9/1. He makes an election in the Online Member Services (OMS) portal to participate in voluntary contributions effective 6/1. His employer receives an automated email from EDX stating that Bakari has chosen to begin making voluntary contributions on 6/1. His employer alerts him to the error. No voluntary contributions invoicing will happen until after his membership start date of 9/1.

Questions: Contact your Employer Service Center representative.