

PERS – WHAT’S NEXT?

Presentation to OSBA
November 9, 2012



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Since we last met...

- 2011 Valuation was released. Rates are going up beginning July 1, 2013.
- Employer group has met and developed a list of ideas to reduce costs of the system.
- The list has been submitted to PERS to value the potential savings.
- OSBA has retained external legal counsel to review the ideas for constitutionality.
- Current year rates of return are reasonably strong, but PERS may be looking at reducing the assumed rate in the Spring.

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2011 Valuation

System-wide 2011 Valuation was released on August 28 and sets rates for July 1, 2013 - June 30, 2015.

Among the findings:

- On average, payroll rates will increase by 5% of payroll, not including impact of IAP or side accounts.
- Rate collar, on average, is deferring an additional 2% increase.
- The School pool rate will increase from 19.5% to 26.7% of payroll, an increase of 7.20%.
- Rates net of side account offsets are projected to increase by a slightly lower percentage.
- Overall rate of return for the fund in 2010 and 2011 was approximately 7.2%, somewhat lower than assumed 8%, one factor in increased rates.

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2011 PERS Valuation (cont'd)

- Another factor in increasing rates is imposition of the collar, which, by deferring increases, costs more in the long run.
- Funded ratio for the system (net of side accounts) dropped from 76% in 2009 to 73% in 2011.
- Barring future investment performance above the assumed 8% rate, rates are likely to be at 2013-2015 levels (or higher) for the foreseeable future.
- Year to date investment returns in 2012 (through September) was 10.8%, but system lost ground in October.
- Detailed individual reports were released last week.

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PERS Funded Status

System Wide (\$ in millions)

Valuation as of December 31	2007		2009		2011	
	2009-2011	2011-2013	2011-2013	2013-15	2013-15	2013-15
	Rates	Rates	Rates	Rates	Rates	Rates
Actuarial Accrued Liability	\$ (52,871)	\$ (56,811)	\$ (61,198)			
Actuarial Value of Assets	51,670	43,239	44,943			
UAL	\$ (1,201)	\$ (13,572)	\$ (16,255)			
Funded % ⁽¹⁾	97.7%	76.1%	73.4%			
Side Accounts	\$ 7,658	\$ 5,490	\$ 5,225			
UAL/Surplus with Side Accounts	6,457	(8,082)	(11,030)			
Funded % with Side Accounts	112.2%	85.8%	82.0%			
Pension Bonds – principal outstanding	(6,249)	(6,109)	(5,896)			
Employer Net Obligation	\$ 208	\$ (14,191)	\$ (16,926)			

(1) Funded percentage net of side account for purposes of calculating collar.

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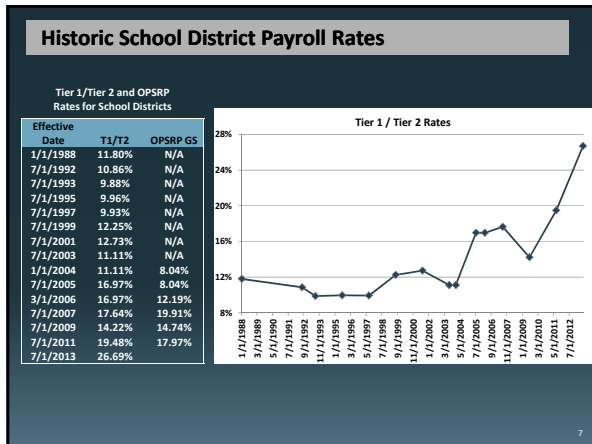
PERS Funded Status

School District Pool (\$ in millions)

Valuation as of December 31	2007		2009		2011	
	2009-2011	2011-2013	2011-2013	2013-15	2013-15	2013-15
	Rates	Rates	Rates	Rates	Rates	Rates
Actuarial Accrued Liability	\$ (21,299)	\$ (22,518)	\$ (23,974)			
Actuarial Value of Assets	20,157	16,577	16,964			
UAL	\$ (1,142)	\$ (5,941)	\$ (7,009)			
Funded % ⁽¹⁾	94.6%	73.6%	70.8%			
Side Accounts	\$ 3,897	\$ 2,810				
UAL/Surplus with Side Accounts	2,755	(3,131)				
Funded % with Side Accounts	112.9%	86.1%	NA			
Pension Bonds – principal outstanding	(2,707)	(2,632)				
Employer Net Obligation	\$ 48	\$ (5,763)				

(1) Funded percentage net of side account for purposes of calculating collar.

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Contribution Rate Components

School District Rates

Valuation as of December 31	2007	2009	2011
	2009-2011 Rates	2011-2013 Rates	2013-15 Rates
Normal Cost	5.19%	7.55%	8.17%
UAL	8.74%	11.34%	17.93%
RHIA/RHIPA ⁽¹⁾	0.29%	0.59%	0.59%
Total	14.22%	19.48%	26.69%
Change from prior rate	(3.42%)	5.26%	7.21%

(1) Average side account reduction for school districts is 8.02%.

But PERS May Act to Reduce Assumed Rate

- 'Assumed rate' is recommended by actuary as reasonable long term rate of return.
- While set at 8% since 1989, 8% is not 'guaranteed'. May be changed by board action on advice of actuary.
- Last year, actuary recommended reducing rate, but board did not.
- Reducing rate will cause employer rates to rise because money match guarantee and rate assumed for investment of PERS fund is linked.
- At August 28 Board meeting, outgoing board chair James Dalton suggested it was *likely* that board would reduce rate next spring.
- Reduction in assumed rate to 7.5% has been estimated to increase payroll rates by 3.00%.

Can Additional Legislation Reduce Costs Further?

Maybe.

Three key questions:

1. Are there more changes that would save money?
2. Are they constitutionally permissible?
3. Is it desirable policy to further reduce pensions?

The City Club of Portland issued a well-regarded report in 2011 suggesting that more legislation would not only be effective, but would hold up in court.

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Recent Legislative Actions

- 2011 Legislative session attempted to limit paying tax 'remedy' to out of state retirees after January 1, 2012. However, it only addressed one of two benefit programs, didn't save much.
- 2012 Legislative Session, bill introduced by Rep. Conger (R-Bend), was based upon many City Club recommendations. No action taken.
- Legislature expected to take up PERS issues in 2013 session.

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Employer Reform Concepts

Significant increases in costs have led a wide group of employers to consider various potential modifications to System.

- To obtain answers to the three key questions, a list of options has first been submitted to PERS for valuation purposes.
- OSBA has also submitted list to legal counsel for a constitutional review.
- Depending on outcome of these analyses, employers will next meet to discuss policy implications of potential changes.

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Potential Legislative Concepts

Ideas include:

1. Limit COLAs to the first \$24,000 of retiree's benefit, indexed for inflation. Several variations on theme.
2. Move all future IAP contributions for all employees back into employee's account to bring up the amount of funding going into the system.
3. Decouple Money Match rate from assumed rate. Use one rate for pension system returns and separate rate for calculating balance in employee's account. Variation: maintain same rates for calculating annual balance, but reduce rate used to calculate annuity upon retirement of Money Match retiree.

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Potential Legislative Concepts (cont'd)

4. Remove tax remedy for all out of state employees, including both existing and prospective retirees.
5. Increase the number of hours required to be worked to establish PERS membership eligibility from 600 to 1039.
6. Eliminate RHIA and RHIPA.
7. Set maximum benefit cap at 100% of final average salary, decreasing 2% per year until it reaches 80% in 10 years.
8. Increase retirement age to 56 or 58 and eliminate 30 years of service. Or, keep 30 year qualification, but ban collections until age 58.
9. Modify definition of Final Average Salary to avoid pension 'spiking'.

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Next Steps

- PERS expects to have valuation of ideas by the end of next month in time for November 30, 2012 Board meeting.
- OSBA is also expecting to hear from legal counsel on the constitutionality of proposals in November.
- Groups will likely be meeting in December to discuss policy issues.

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Contact Information



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School Districts Actuarial Valuation Report Data

District	12/31/2009 Actuarial Valuation Report (2011-13 Rates)					2011		2013-15
	Allocated Pooled LUAL	Side Account	LUAL (after Side Account)	School Pool Rate	Rate Credit	Net Rate	Rate	
School District Pool	n/a	n/a	n/a	19.48%		19.48%	26.69%	
Amity School District	7,192,359	7,613,328	(420,969)	19.48%	17.42%	2.06%	8.09%	
Astoria School District	18,261,995	20,491,145	(2,229,150)	19.48%	18.47%	1.01%	6.47%	
Baker School District	17,740,667	9,306,274	8,434,393	19.48%	8.63%	10.85%	17.07%	
Banks School District	6,669,268	2,229,667	6,439,601	19.48%	4.23%	15.25%	21.79%	
Beaverton School District	397,363,949	155,868,790	241,495,159	19.48%	6.46%	13.02%	20.34%	
Bend-LaPine School District	\$150,760,877	\$75,124,001	\$75,636,876	19.48%	8.20%	11.28%	18.05%	
Brookings School District	14,247,484	11,273,187	2,974,297	19.48%	13.02%	6.46%	11.66%	
Canty School District	57,696,587	39,583,949	18,022,638	19.48%	11.31%	8.17%	13.78%	
Cascade School District 5	21,588,175	16,450,988	5,137,187	19.48%	12.54%	6.94%	12.87%	
Central School District	28,511,446	21,886,451	6,624,995	19.48%	12.64%	6.84%	12.47%	
Clackamas Education Service District	32,748,095	15,514,947	17,233,148	19.48%	7.82%	11.66%	17.28%	
Coe Bay School District	27,661,878	9,014,002	19,647,876	19.48%	4.77%	14.71%	21.74%	
Corvallis School District	61,421,196	31,751,993	29,669,203	19.48%	8.51%	10.97%	16.81%	
Creswell School District 40	12,273,244	2,805,654	9,467,590	19.48%	3.76%	15.72%	22.71%	
Crook County School District	26,031,455	26,747,551	(716,096)	19.48%	16.91%	2.57%	8.69%	
David Douglas School District	129,597,994	24,119,798	105,478,196	19.48%	3.06%	16.42%	23.52%	
Dayton School District	10,154,830	7,974,364	2,180,466	19.48%	12.93%	6.55%	13.25%	
Douglas Education Service District	11,506,217	4,857,388	6,648,829	19.48%	6.95%	12.53%	22.56%	
Echo School District	2,772,341	1,814,392	957,949	19.48%	10.77%	8.71%	16.61%	
Estacada School District #108	22,565,817	10,649,518	11,916,279	19.48%	7.77%	11.71%	18.22%	
Eugene School District	188,374,259	45,471,403	142,902,856	19.48%	3.97%	15.51%	22.14%	
Falls City School District	2,141,239	1,965,493	175,746	19.48%	15.11%	4.37%	7.40%	
Fern Ridge School District	12,523,759	7,570,740	4,953,019	19.48%	9.95%	9.53%	16.25%	
Forest Grove School District	61,972,948	24,103,024	37,869,924	19.48%	6.40%	13.08%	19.80%	
Gaston Public Schools	5,501,454	4,560,348	941,106	19.48%	13.65%	5.83%	9.63%	
Gervais School District 1	12,059,371	10,697,389	1,361,982	19.48%	14.60%	4.88%	11.29%	
Gladstone School District #115	17,688,707	18,977,972	(1,289,265)	19.48%	17.66%	1.82%	6.39%	

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School District Pool	n/a	n/a	n/a	19.48%		19.48%	26.69%	
Glide School District	8,097,448	3,443,877	4,653,571	19.48%	7.00%	12.48%	18.32%	
Greater Albany School District	82,871,899	38,712,769	44,159,130	19.48%	7.69%	11.79%	18.84%	
Gresham-Barlow School District	114,318,578	67,301,457	47,117,121	19.48%	9.88%	9.80%	16.13%	
Harney County School District 3 (Burns)	9,867,045	12,996,367	(3,029,322)	19.48%	18.89%	0.59%	2.44%	
Hermiston School District	41,183,790	21,532,796	19,650,994	19.48%	8.61%	10.87%	17.54%	
High Desert ESD	26,172,524	10,647,219	15,525,305	19.48%	6.58%	12.90%	19.92%	
Willbros School District 1	207,385,900	85,271,228	122,114,672	19.48%	6.77%	12.71%	19.23%	
Hood River County School District	48,134,107	24,374,014	23,760,093	19.48%	8.34%	11.14%	18.19%	
Intermountain ESD							18.48%	
Jefferson School District	9,639,043	7,469,443	2,169,600	19.48%	12.76%	6.72%	12.31%	
John Day School District	8,308,751	4,188,088	4,120,663	19.48%	8.30%	11.18%	17.57%	
La Grande School District 1	19,320,040	10,632,490	8,687,550	19.48%	9.06%	10.42%	16.79%	
Lake Oswego School District	70,003,895	45,154,108	24,849,787	19.48%	10.62%	8.86%	15.04%	
Lane County ESD	23,557,557	5,355,452	18,202,105	19.48%	3.74%	15.74%	22.55%	
Lincoln County School District	43,537,943	59,834,658	(16,096,715)	19.48%	18.89%	0.59%	0.59%	
Madras School District	31,521,612	13,157,957	18,363,655	19.48%	6.87%	12.61%	19.90%	
McMinnville School District	63,383,274	28,338,572	35,044,702	19.48%	7.36%	12.12%	19.40%	
Medford School District 549	104,604,280	26,576,701	78,027,579	19.48%	4.18%	15.30%	22.06%	
Milton-Freewater School District	20,523,953	14,336,066	5,993,887	19.48%	11.65%	7.83%	12.86%	
Molalla River School District	21,471,410	25,431,628	(3,960,218)	19.48%	18.89%	0.59%	5.08%	
Monroe School District	4,743,705	1,856,832	2,886,873	19.48%	6.44%	13.04%	20.37%	
Morrow School District 1	21,139,187	8,167,819	12,971,368	19.48%	6.36%	13.12%	19.84%	
Multnomah ESD	60,141,139	28,338,765	31,804,374	19.48%	7.76%	11.72%	18.25%	
Nestucca Valley School District	5,943,819	2,134,145	3,809,674	19.48%	5.91%	13.57%	20.07%	
Newberg School District 29Jt	46,815,576	38,001,066	8,814,510	19.48%	13.36%	6.12%	13.01%	

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