Frequently Asked Questions: Assumed Rate

1. What is the "assumed rate"?
The assumed rate is the rate of investment return (including inflation) that the PERS Fund's regular account is expected to earn over the long term. Oregon Administrative Rule 459-007-0001(2) states: "Assumed rate" means the actuarial assumed rate of return on investments as adopted by the Board for the most recent actuarial valuation.

2. How is the assumed rate determined?
The PERS Board decides on the assumed rate based on:
- The long-term projection of investment returns based on the portfolio allocations of the Oregon Investment Council, and
- Independent analysis by the PERS actuary, Mercer, of those projected returns from that allocation, again over a long-term investment horizon.

3. What is the current assumed rate?
The current assumed rate is 8 percent and has been in effect since 1989.

4. When is the assumed rate set?
The assumed rate is reviewed and approved by the PERS Board every two years as part of the Experience Study. Historical assumed earnings rates and the periods to which they apply are:
- 5 percent for 1971-1974
- 7 percent for 1975-1978
- 7.5 percent for 1979-1988
- 8 percent for 1989 – present

5. What happens if the assumed rate changes?
The assumed rate is used when crediting Tier One regular accounts with annual earnings. If the rate changed, annual earnings would be credited based on that new rate.

The assumed rate is also used to credit pro-rated earnings to a Tier One member's regular account upon retirement or a withdrawal, so those earnings would be pro-rated at the new assumed rate.

When a Tier One or Tier Two member retires, their account is annuitized based on the assumed rate to calculate their retirement benefit. Changing the assumed rate means using new actuarial factors, and that would change the amount of the benefit. This change would have the biggest effect on Money Match or Formula Plus Annuity benefit calculations.

6. What is the earliest the assumed rate could change?
The PERS Board will need to decide on the assumed rate at its July 16, 2009 meeting. Whether the assumed rate will be changed will depend on the projections by the Oregon Investment Council and the independent analysis by Mercer, the PERS actuary.

7. What is the connection between the assumed rate and AEFs?
When retirement benefits are calculated for a member who is retiring under the Money Match and Formula Plus Annuity methods, or adjusted for benefit payment options, actuarial equivalency factors (AEFs) are used to determine the benefit amount. Actuarial equivalency factors (AEFs) are based on two primary variables:
1) expected member longevity (how long members are expected to live) and
2) the assumed earnings rate (how much the member's account balance will earn during retirement).

When either the mortality or assumed earnings assumptions are changed by the Board, the AEFs must be updated. The recalculated AEFs are then used to calculate future retiree benefits. The actuary will report recommended changes to the AEFs, if necessary, to the Board in November 2009. If the AEFs are changed, they would become effective January 1, 2010.

8. If I am receiving installment payments of my account because I chose a lump-sum option, will I be affected by a change to the assumed rate?
Yes, if you are a Tier One member. Earnings are credited to the remaining balance of your account and distributed with your last installment. A change to the assumed rate will change the earnings rate applied to your remaining account balance. Note that monthly benefit payment amounts for members who retired before the assumed rate changes will not be affected, as those benefits were set using the actuarial factors in place when they retired.

9. Does the assumed rate affect a retirement benefit if the member's benefit is based on the Full Formula method?
The basic Full Formula benefit is based on final average salary, years of service, and a statutory factor. None of those elements are affected by a change in the assumed rate. However, if you elect a benefit option, actuarial equivalency factors are applied and a change to the assumed rate would affect those factors (see Question 7).

10. Are employer contribution rates affected if the assumed rate is changed?
Yes. Employer contribution rates are based on the balance in the employer's reserve earning the assumed rate in the future; if that assumed rate changes, employer contribution rates will change to reflect the different future earnings assumption.