Assumed Rate Change

Board action

At its July 31, 2015 meeting, the PERS Board lowered the "assumed rate" to 7.5% effective January 1, 2016. A member would need to retire no later than December 1, 2015 to have the current assumed rate used at retirement.

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 that the assumed rate "means the actuarial assumed rate of return on investments as adopted by the Board for the most recent actuarial valuation."

The PERS Board decides on the assumed rate based on:

- The long-term projection of investment returns based on the asset allocations of the Oregon Investment Council and the related capital market expectations, and
- Independent analysis by PERS' actuary, Milliman, of the projected returns from that asset allocation, over a long-term investment horizon.

The current assumed rate is 7.75% and has been in effect since January 1, 2014. The assumed rate is reviewed and adopted by the PERS Board every two years as part of the system's Experience Study.

How the assumed rate is used

The assumed rate is used when crediting Tier One regular accounts with annual earnings. Statute dictates that Tier One accounts must be credited with the assumed rate each year. However, the rate itself is subject to change every two years. Beginning in 2016, annual earnings will be credited based on the new rate of 7.5%.

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 will also be pro-rated at the new assumed rate.

When a Tier One or Tier Two member retires, his/her account is annuitized based on the assumed rate. The change in the assumed rate means using new actuarial factors (AEFs) to calculate a retirement benefit. This change will have the biggest effect on Money Match and Formula Plus Annuity benefit calculations. 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).

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 the member elects a benefit option, AEFs are applied and a change to the assumed rate would affect those factors.

When either the mortality or earnings rate assumptions are changed by the Board, the AEFs must be updated. The recalculated AEFs are then used to calculate the benefits of future retirees. The actuary will report recommended changes to the AEFs to the Board in November 2015. Updated AEFs would become effective January 1, 2016, as required in statute.

NOTE: Updated AEFs will be available after December 1, 2015; online and written benefit estimates will not include updated AEFs until after this date.

Note that monthly benefit payment amounts for members who retired before the assumed rate changes (December 1, 2015 or earlier) will not be affected, as those benefits were set using the actuarial factors in place when they retired.

Effect on employer contribution rates

The assumed rate also is used to discount system liabilities when setting employer rates. With the earnings assumption being lowered, the amount that must be contributed by employers will increase to cover the reduced earnings projection. Employer contribution rates are based on the balance in the employer's reserve earning the assumed rate in the future; because the assumed rate is changing, employer contribution rates will change to reflect the different future earnings assumption. The rate changes will become effective with the next rate setting valuation (e.g., the 2017-19 biennium).

Example of the change for a Tier One member

The example below shows how an assumed rate of 7.5% instead of the current 7.75%, would affect a future retiree under the Money Match formula.

Assumptions used in example:

- Tier One general service member
- Age 59 1/2
- $135,000 accumulated Tier One member contribution account balance as of June 30, 2015.

Example: Assumed rate of 7.50% instead of 7.75%			
Retirement Date	December 1, 2015	January 1, 2016	March 1, 2016
Assumed Rate	7.75%	7.5%	7.5%
Starting Benefit	$2,117	$2,088	$2,119

The example above shows that changing the assumed rate from 7.75% to 7.5% would require delaying retirement for about three months to reach the initial benefit level if the annuitization factors changed January 1, 2016.