PERS Oregon Public Employees Retirement System

The PERS Cost Increase Challenge

The PERS Fund lost $17 billion in 2008. Using its rate collaring policy, the PERS Board increased net employer rates (after side account offsets) by 5.6% of payroll starting on July 1, 2011, a $1 billion increase in PERS costs for the current biennium. Starting July 1, 2013, net employer rates will increase another 4.9% of payroll for the biennium to an average of 15.7%, with base rates (before side account offsets) averaging 21.4% of payroll. The actual increase varies by employer, with state agencies seeing an average 4.6% of payroll increase and K-12 schools facing an average 6.6% of payroll increase.

These rate increases will cost PERS employers about $900 million more in the 2013-15 biennium. State agencies (including the Oregon University System) will pay some $240 million more; K-12 schools about $400 million more; and local governments and other entities about $260 million more. The state's General Fund covers about 38% of state government payroll costs and 70% of K-12 school funding, so the General Fund impact from the 2013-15 PERS rate increases would total some $370 million for the biennium.

Employer rates have two components. The first, the "normal cost" portion, is the cost of the benefits accrued by active members for the current year's service. The normal cost portion of the 2013-15 base rates is just over 8% of payroll. The remaining portion (about 13%) goes to paying down the $16 billion in Unfunded Accrued Liability ("UAL") that remains from that 2008 investment loss. About 68% of the system's liability is attributable to the benefits already accrued by retired and inactive members; the rest is for active members' accrued benefits.

Potential PERS Cost Containment Legislation and Related Cost Impacts

1) Limit the COLA for current and any future retired members to the first $24,000 of annual benefits. This would reduce COLA costs while protecting low and moderate income retirees. Estimated savings of 3.2% of payroll or some $575 million over the biennium.
2) Reduce the 6% member IAP contribution to a 3% member IAP contribution. Employers currently "pick-up" the IAP contribution for about 70% of all active members. Those employers (including the state) would save 3% of payroll, for a total of about $375 million over the biennium. There would be an additional savings of $60 million per biennium (about 0.3% of payroll) from the associated impact on "final average salary" for Tier One and Tier Two members.
3) Define in statute that the annuitization rate for future Money Match benefit calculations is 6% (instead of using the system's assumed earnings rate, which is currently 8%). Moderates long-term rates by reducing accrued liabilities over $1.5 billion; effect on near-term rates would depend on how such a change is implemented along with associated board and legislative policy mandates.
4) Eliminate the Oregon state income tax "offsets" under both SB 656 and HB 3349 from any Tier One PERS benefit payment not going to an Oregon resident. Estimated savings of about 0.4% of payroll or about $70 million per biennium.

Potential PERS Board Actions and Related Cost Impacts

In addition to these potential legislative actions, the PERS Board will, as part of its regular rate-setting process, review the long-term assumed earnings rate in spring 2013. Decreases in the capital market return expectations will likely dictate lowering the assumption (currently 8%). Board action to use a 7.5% assumption would increase employer rates by 3% of payroll or some $550 million per biennium.

To mitigate that rate increase, the Board could consider extending the Tier One/Tier Two unfunded actuarial liability amortization period from the current 20 years to up to 30 years. This would offset most or all of the employer rate impact of a 7.5% earnings assumption. That extension would need to be explored further with the PERS actuary and determined to be prudent under the recent changes to Governmental Accounting Standards Board (GASB) rules.

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