



Senate Bill 822 – Potential Impact to PERS Employer Rates

The PERS Board uses an actuarial method that spreads very large necessary employer rate changes over more than one biennium. This “rate collar” method was adopted in 2005. The Board started “collaring” employer rate increases associated with the 2008 investment losses by limiting the system-wide average July 2011 increase to about 3.9% of payroll (5.6% of payroll after reflecting the leveraging effects of individual employer side accounts).

A second increase averaging 5.1% of covered payroll (4.9% reflecting side accounts) is scheduled to go into effect in July 2013, and a third increase of about 2.2% of payroll is projected to go into effect in July 2015. The Board’s rate collaring spread the increase from 2008 losses over three biennia in a roughly “4%-5%-2%” rate increase schedule on a system-wide average basis (before reflecting side accounts).

Provisions of SB 822 and its associated budget note (text follows) impact projected contribution rates in two different ways. First, changes to the COLA and tax remedy provisions reduce projected benefits and hence reduce both near-term and long-term contribution rate projections. Second, the budget note effectively directs the PERS Board to further modify rate increases by deferring up to 1.9% of payroll of the scheduled July 2013 increase into the 2015-17 biennium and subsequent biennia. On its own, the budget note reduces near-term contribution rates while increasing long-term contribution rate projections.

Senate Bill 822 (including the budget note) would reduce the July 2013 contribution for most employers by 4.4% of payroll compared to the rates currently scheduled to take effect at that time. To comply with the budget note in as actuarially sound a manner as possible, a floor will be applied to the rate deferral to ensure that no employer’s rate is reduced below their current 2011-13 biennium level. The projected effects of SB 822 are shown in the following tables.

PERS covered payroll is projected to total \$18.4 billion for the 2013-15 biennium, so an employer rate deferral of up to 1.9% of payroll would “save” employers about \$350 million during that biennium. Since the deferral does not reduce system liabilities, it increases contribution rates in future biennia by about 0.3% of payroll for the subsequent 20 years.

The 2015-17 employer rate projections are sensitive to actual PERS investment earnings in 2013. Changes in PERS actuarial methods and assumptions by the PERS Board (such as reducing the fund’s “assumed earnings rate” or changing the unfunded liability amortization period) could also significantly impact 2015-17 employer rates.

A rate deferral as provided under the SB 822 budget note may be an appropriate response to the unique and severe nature of the 2008 investment losses, but should only be used on a one-time basis so as not to undermine the long-term funding of the system and the retirement security of PERS members.

PERS System-wide Average Base Employer Rates Following the 2008 Investment Losses				
	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium	Subsequent Biennia
Pre-SB 822	16%	21.1%	23.3%	~25.5%
Effect of SB 822 Benefit Changes	---	18.6%	20.8%	~23.0%
Effect of SB 822 Benefit Changes & Budget Note	---	16.7%	21.1%	~23.3%

PERS SLGRP Average Base Employer Rates Following the 2008 Investment Losses (State and Local Government Rate Pool)				
	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium	Subsequent Biennia
Pre-SB 822	15.1%	19.7%	21.9%	~24.1%
Effect of SB 822 Benefit Changes	---	17.2%	19.4%	~21.6%
Effect of SB 822 Benefit Changes & Budget Note	---	15.3%	19.7%	~21.9%

PERS School District Average Base Employer Rates Following the 2008 Investment Losses				
	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium	Subsequent Biennia
Pre-SB 822	18.9%	26.1%	28.3%	~30.5%
Effect of SB 822 Benefit Changes	---	23.6%	25.8%	~28.0%
Effect of SB 822 Benefit Changes & Budget Note	---	21.7%	26.1%	~28.3%

Note: Base employer rates shown above are pension only.

- **Text of Senate Bill 822A**

<http://www.leg.state.or.us/13reg/measpdf/sb0800.dir/sb0822.a.pdf>

- **Budget Report to Senate Bill 822A**

<https://olis.leg.state.or.us/liz/2013R1/Downloads/MeasureAnalysisDocument/18250>

Budget Note:

Section 18 of SB 822 directs the Public Employees Retirement System (PERS) Board to "recalculate the contribution rates of all employers, pursuant to ORS 238.225, to reflect the provisions of this 2013 Act." In addition to any employer rate increase that would be deferred in the 2013-15 biennium under the PERS Board's October 2012 rate smoothing methodology, the Legislature directs the PERS Board to undertake additional administrative actions to further reduce each PERS employer's rate by up to 1.9% of covered payroll to mitigate rate increases for the 2013-15 biennium, to the extent such administrative actions conform to sound accounting and actuarial practices, as determined by the PERS Board in consultation with the system's actuaries.

PERS is directed to report to the Joint Committee on Ways and Means during the 2014 session on the administrative actions undertaken by the PERS Board and an estimate of the amount of system wide savings resulting from the actions.

- **Actuarial Analysis of Senate Bill 822**

http://www.oregon.gov/pers/docs/general_information/sb_822_%20letter_analysis.pdf