

MERCER

Human Resource Consulting



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Oregon PERS July 1, 2007 Individual Employer Rates

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Overview



Overview Adoption of Rates

- We presented 12/31/2005 system-wide valuation results at the September Board meeting
- Today we are presenting the recommended individual employer contribution rates that would be effective from July 1, 2007 to June 30, 2009
- Separate contribution rates are developed for each individual employer reflecting
 - Cost-sharing pools
 - Pre-pooled obligations
 - Side accounts
- Separate contribution rates are developed for 3 different payrolls
 - Tier 1 / Tier 2 payroll
 - OPSRP General Service payroll
 - OPSRP Police & Fire payroll



Overview

Average 7/1/2007 Employer Contribution Rates

	Payroll		
	Tier 1 /Tier 2	OPSRP GS	OPSRP P&F
Normal Cost	4.3%*	5.8%	9.1%
Tier 1/Tier 2 UAL	10.5%	10.5%	10.5%
OPSRP UAL	0.0%	0.0%	0.0%
Employer Rate	14.8%	16.3%	19.6%
Side Account	(6.7%)	(6.7%)	(6.7%)
Net Employer Rate	8.1%	9.6%	12.9%

- Employers pay the normal cost rate applicable to each portion of their payroll. For Tier 1/Tier 2, we calculate a blended normal cost rate for each employer, but for OPSRP we do not.
- Employers pay the same UAL rate on all of their payroll. That is, the Tier 1/Tier 2 UAL rate is charged against both Tier 1/Tier 2 and OPSRP payroll, and the OPSRP UAL rate is charged against both OPSRP and Tier 1/Tier 2 payroll.
- Side account rate relief is also applied to all payroll.
- As a result, employers are likely to pay a higher contribution rate on their OPSRP payroll than on their Tier 1/Tier 2 payroll, but the higher rate is due to the Tier 1/Tier 2 UAL.

* 14% of Tier 1/Tier 2 members have no normal cost reflecting the impact of the frozen Money Match formula.



Overview

Tier 1/Tier 2 Employer Contribution Rates by Group

Pension & Healthcare	SLGRP	Independents*	School Districts	Judiciary (Includes Member Contributions)	System-Wide
7/1/2005 Employer Rate	15.3%	11.5%	17.0%	30.4%	15.4%
7/1/2007 Normal Cost	4.6%	4.7%	3.5%	31.2%	4.3%
7/1/2007 UAL	9.6%	4.5%	14.1%	(5.5%)	10.5%
7/1/2007 Employer Rate	14.2%	9.2%	17.6%	25.7%	14.8%
Average 7/1/2007 Side Account Rate Relief	(6.3%)	(0.7%)	(9.7%)	N/A	(6.7%)
Average 7/1/2007 Net Employer Rate	7.9%	8.5%	7.9%	25.7%	8.1%

While system-wide rates are projected to average 14.8%, rates vary significantly by pool and employer.

* Assumes election of phase-in rate for 7/1/2005, and does not reflect the collar for 2007



7/1/2007 Net Individual Employer Contribution Rates



Net Employer Contribution Rates General Trends

- The net employer contribution rates by payroll reflect the costs of both Tier 1/Tier 2 and OPSRP as they are applied to the different payrolls
- The rate charged to OPSRP payroll is significantly affected by the UAL rate for Tier 1/Tier 2
- The Tier 1/Tier 2 normal cost rates have declined and UAL rates increased as a result of changes made to more accurately reflect both the ongoing cost of the Tier 1/Tier 2 benefits and the cost attributable to past service
- Because the Tier 1/Tier 2 UAL rates have generally increased, rates charged on OPSRP payroll have also increased
- Because Tier 1/Tier 2 normal cost rate decreases have offset the increased UAL rates, rates charged on Tier 1/Tier 2 payroll have generally remained level or declined slightly
- Also note that investment returns (and the change to market value) have essentially eliminated the second step of the expected phase-in of the prior rate increase



Net Employer Contribution Rates Individual Employer Factors

- Individual employers can experience changes that contradict these general trends
- Factors affecting individual employers include:
 - Changes in payroll – Side accounts and non-pooled liabilities are fixed dollar amounts that are amortized over expected payroll. Changes in payroll can have a significant effect on these rates.
 - Changes in members – Particularly for small employers that are not in a pool, changes in their personnel can have a significant impact on both normal cost rates and UAL rates.
- There is also a minimum rate equal to the current retiree healthcare contribution rate, pending legal review of the ability to use side accounts for these contributions



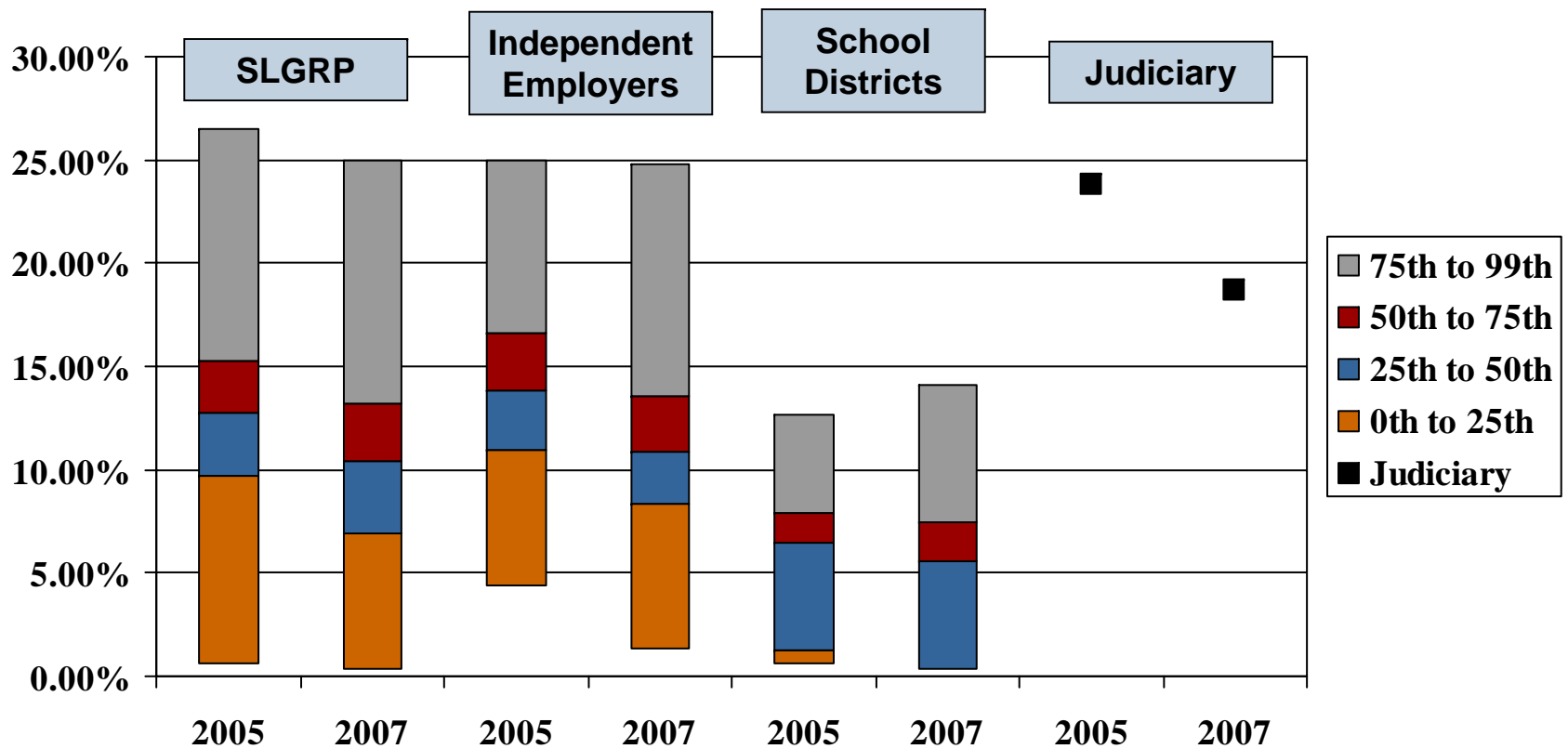
Net Employer Contribution Rates

- Net employer contribution rates include:
 - Pension and healthcare rates
 - Side account rates
 - Pre-pooled obligation rates
- Net employer contribution rates exclude:
 - 6% IAP contributions
 - 7% judiciary member contributions



Net Employer Contribution Rates Distribution of Employer Rates

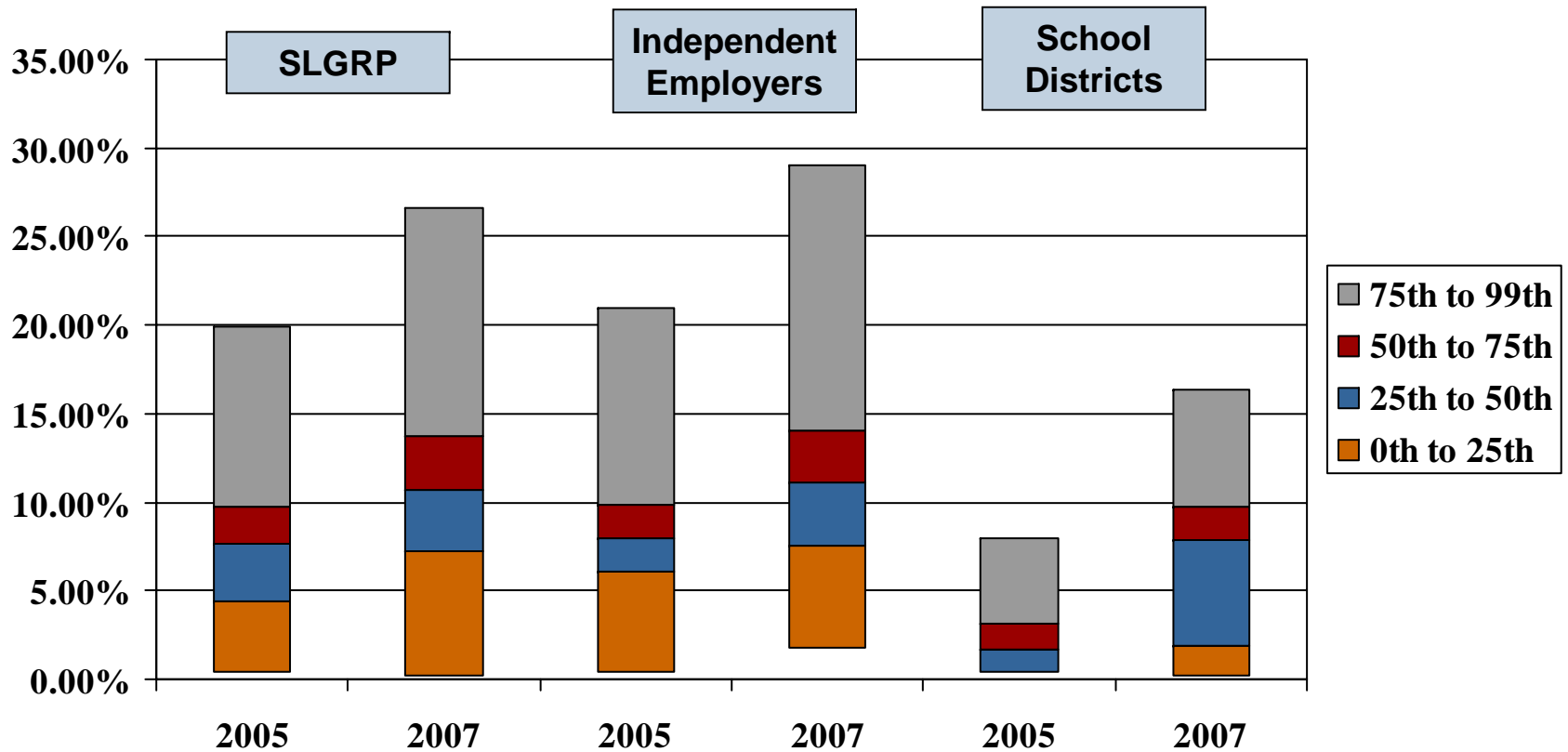
Employer Contribution Rates on Tier 1 / Tier 2 Payroll





Net Employer Contribution Rates Distribution of Employer Rates

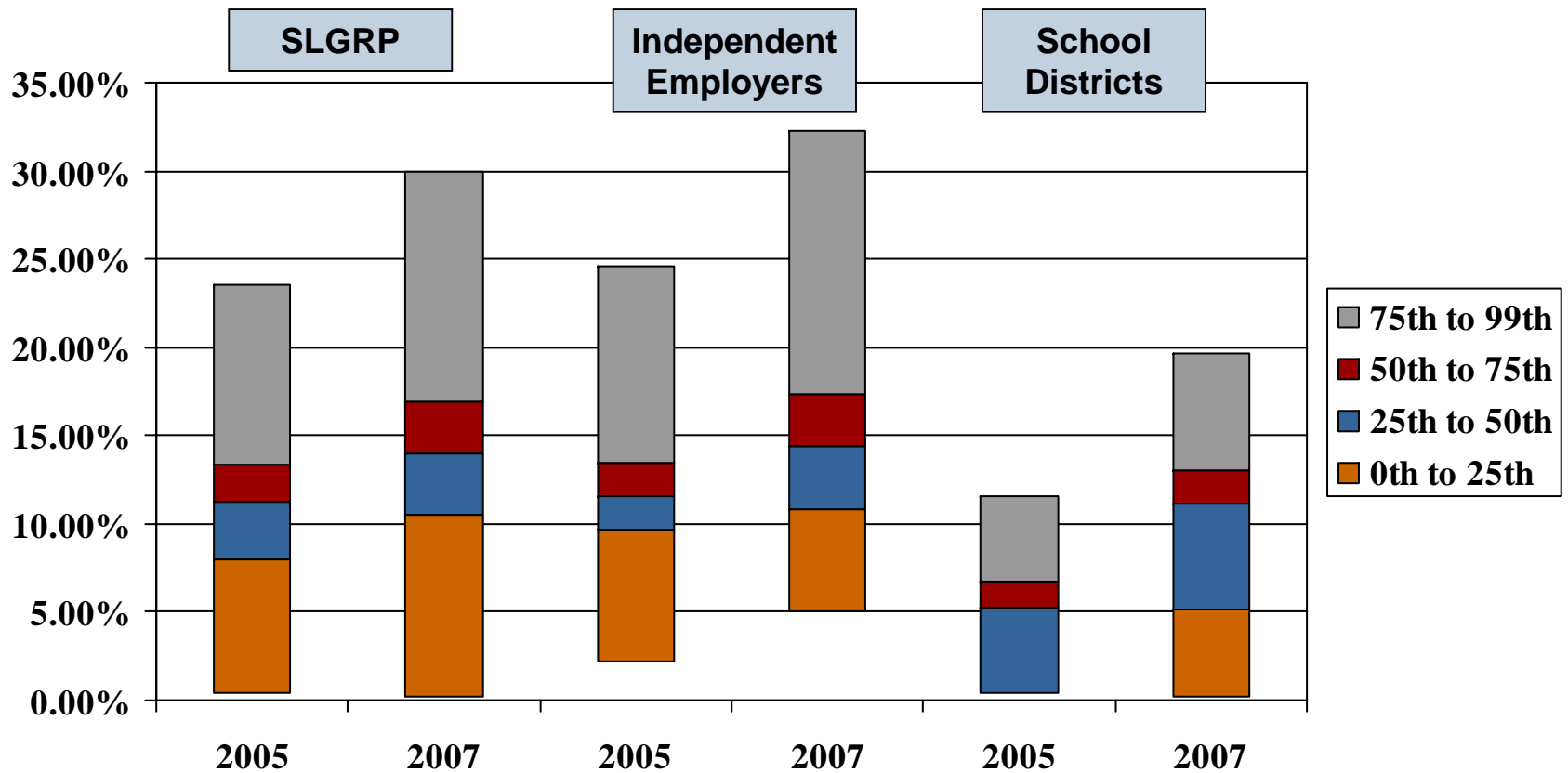
Employer Contribution Rates on OPSRP General Service Payroll





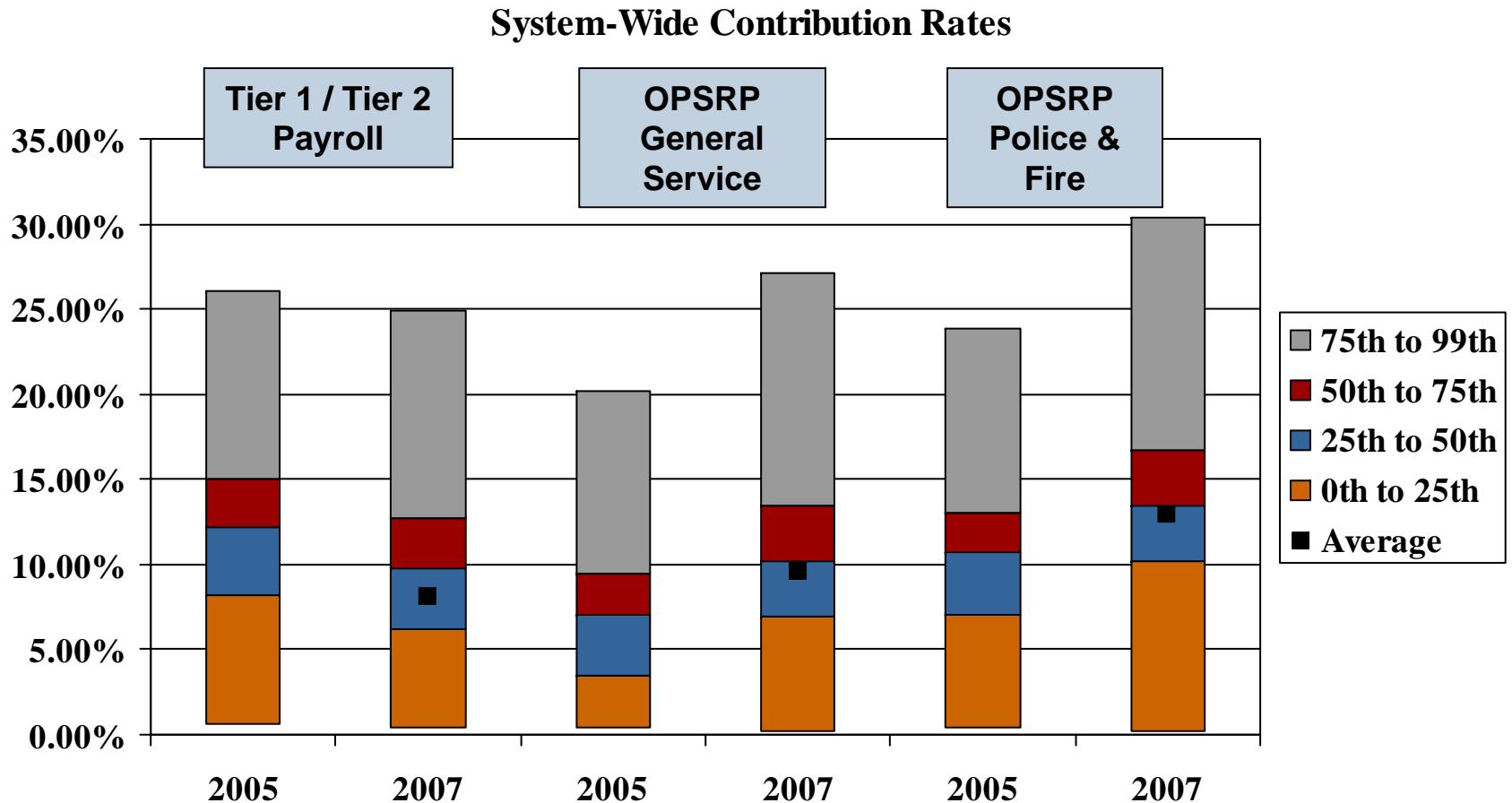
Net Employer Contribution Rates Distribution of Employer Rates

Employer Contribution Rates on OPSRP Police & Fire Payroll





Net Employer Contribution Rates Distribution of Employer Rates





Net Employer Contribution Rates Changes in Employer Rates

- In spite of the collar, there have been some significant changes in employer contribution rates due to items excluded from the collar
 - Ongoing items
 - Side account investment performance
 - Transition liability re-amortization over a significantly different payroll
 - One-time items
 - Employers joining the SLGRP change from their individual normal cost rates to the SLGRP's normal cost rates which can be significantly different
 - Employers joining the SLGRP change from a collar applied to their individual rate to the effect of the collar on the SLGRP as a whole



Next Steps

- Adopt Employer Contribution Rates
- System-Wide Valuation Report
- Individual Employer Valuation Reports