Oregon
Tina Kotek, Governor

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August 2, 2023

The Honorable Senator Elizabeth Steiner-Hayward, Co-Chair
The Honorable Tawna Sanchez, Co-Chair
Joint Interim Committee on Ways and Means
900 Court Street NE
H-178 State
Capitol Salem,
OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Public Employees Retirement System (PERS) requests acknowledgement of receipt of this report on the PERS Board's preliminary approval of changes to actuarial methods and assumptions. This report is provided in accordance with Section 57 of Senate Bill 1049 (2019) (Chapter 355, 2019 Oregon Laws), which requires PERS to submit this report to the Joint Interim Committee on Ways and Means at least 30 days prior to the final adoption of actuarial methods and assumptions. Final adoption is scheduled for the September 29, 2023, PERS Board meeting.

Agency Action

On July 28, 2023, the PERS Board preliminarily approved actuarial methods and assumptions that will be used for the December 31, 2022 and December 31, 2023 actuarial valuations of the system. These actuarial methods and assumptions are based on the results of the 2022 Experience Study (attached) prepared by the Board's actuaries, Milliman.

In this preliminary action, the Board retained or changed the following actuarial methods and assumptions:

<u>ACTUARIAL METHODS</u>

- Retain the Funding Policy based on the following objectives, while they might have competing interests: transparent; predictable and stable rates; protect funded status; equitable across generations; actuarially sound; and GASB compliant.
- Retain continued use of the Entry Age Normal methodology.
- Retain the rate collaring policy using a fixed percent of pay with a decrease limit. The collar width is 3% of pay for the Tier One/Tier Two UAL rate for the two large Tier One/Tier Two experience-sharing pools and 1% of pay for OPSRP, which pools its experience state-wide. The decrease limit has a phase-in approach depending on funded status as shown in the chart below. Additionally, there is a different rate collar for independent employers given their higher contribution-rate volatility. The width of the independent rate collar for the Tier One/Tier Two UAL rate will be the greater of 4% of pay or one-third of the difference between the collared and uncollared UAL rates calculated at the last rate-setting valuation.

	Allowable UAL Rate Decrease	
Rate Pool Funded Status	Tier 1/Tier 2 Schools/SLGRP	OPSRP
87% or less	0.00%	0.00%
88%	1.00%	0.33%
89%	2.00%	0.67%
90% or more	3.00%	1.00%

- Retain the amortization period for OPSRP liability at 16 years.
- Retain the amortization period for Tier One and Tier Two liability at 20 years.
- Minor changes to RHIA and RHIPA based on experience changes.
- Change the amortization of side accounts. Currently, amortization is calculated as level percent of projected pay through December 31 of scheduled end year. The majority of current side accounts amortize to December 31, 2027. PERS will continue to amortize side accounts to December 31, however PERS will add a lag adjustment to allow us to manage expiring amortizations through the 2027 period.
- Change the amortization of Pre-SLGRP amounts. Currently, amortization is calculated as a level percent of projected pay through December 31 of scheduled end year. (Currently set at 18 years from date employers joins the SLGRP) Pre-SLGRP pool liability and large majority of Transition Liabilities/Surpluses amortize to December 31, 2027. PERS will amortize to July 1 after the scheduled end date to align with rate change timing and add lag adjustment.

NON-ECONOMIC ASSUMPTIONS

- Retain the inflation rate of 2.4%. This affects all other assumptions including system payroll growth, investment return and health care inflation.
- Retain the real wage growth rate of 1.0%, which represents the increase in wages in excess of inflation for the whole population.
- Retain the system payroll growth of 3.4%. This is assumed to equal the sum of inflation and real wage growth.

ECONOMIC ASSUMPTIONS and ASSUMED RATE of RETURN

- Change the explicit assumptions regarding administrative expenses for Tier One/Tier Two and OPSRP given the increased cost due to finalizing implementation of SB 1049 and taking into consideration ongoing costs for PERS modernization efforts.
- Retain the assumed rate of return of 6.90%. This reduction to the investment return assumption was based on an analysis of PERS' current target asset allocation using different sets of capital market outlook assumptions. PERS' consulting actuaries, Milliman, recommended that the Board retain the assumed rate of return. The 50th percentile of average annual returns for those outlooks across 10-year (two outlooks) and 20-year (two outlooks) time horizons fell in the range between 6.55% and 7.6%. The median investment return assumption used by large public sector plans currently sits at 7.00%. While the latest capital market outlooks currently show higher expected returns than the last assumption review in 2021, the board maintained the current assumption which allows for some conservatism in the rate-setting process.

DEMOGRAPHIC ASSUMPTIONS

- Approve a special "select assumption" of an additional 2% merit/longevity increase to apply for two years given recent high inflation and resultant salary increases.
- Retain, except as noted in the following sentence, the mortality assumptions using Pub-2010 base tables and mortality improvement scale based on 60-year unisex average Social Security experience updated to reflect most recent information available (January 2019). Incorporate two additional years of data in assumption for projected future mortality improvement to account for short-term increases due to COVID.
- Change retirement rates for certain member categories and service bands to more closely align with recent and expected future experience; also change (increase) retirement rates for certain School District and Police and Fire age service groups..
- Update pre-retirement termination of employment assumptions to better reflect observed experience for certain groups.
- Change final average salary assumption to Tier One and Tier Two members to more closely track recent experience as it relates to sick leave and lump sum distribution of vacation leave (Tier One only).

ACTUARIALLY DETERMINED IMPACT TO THE ACCRUED LIABILITY OF THE SYSTEM

On a preliminary basis, the estimated effect on combined Tier One, Tier Two and OPSRP liabilities based on Milliman's valuation work for the period ending December 31, 2022 would be to increase the Accrued Liability to $102.9 billion. The impact to the Accrued Liability with the new assumptions are shown below including the preliminary assumed rate of 6.9%.

12/31/2022 Accrued Liability	Assumed Return 6.9%
Current assumptions	$101.7 B
Salary	$1.1 B
All other demographic assumptions	$0.1 B
Revised assumptions (before assumed return)	$102.9 B
Assumed return	$0.0 B
Revised assumptions	$102.9 B

ACTUARIALLY DETERMINED IMPACT TO EMPLOYER CONTRIBUTION RATES

On a preliminary basis, the estimated effect on uncollared system-average advisory contribution rates for 2023 based on Milliman's valuation work would be to add 0.8% to the Normal Cost and 0.6% impact to the Unfunded Actuarial Liability for a combined total of 1.4%.

	Assumed Return 6.9%	
	UAL	Normal Cost
Salary	0.6%	0.9%
Other assumptions	0.0%	(0.1%)
Assumed return	0.0%	0.0%
Total	**0.6%**	**0.8%**
Combined Total	**1.4%**	

The final effect on combined Tier One, Tier Two and OPSRP liabilities as well as the 2025-2027 advisory contribution rates based on Milliman's valuation work for the period ending December 31, 2022 will be presented to the PERS board at its September 29, 2023 board meeting. The PERS Board's final approval of changes to actuarial methods and assumptions also take place at that meeting.

Action Requested

PERS requests the Committee acknowledge receipt of the report.

Legislation Affected

No legislation is affected by this request.

Sincerely,

Kevin Olineck, Director

Attachment

2022 Experience Study