PERS EMPLOYER ADVISORY GROUP MEETING

Date: 01/15/2021 Time: 10:00 a.m. – 12:00 p.m. Location: GoToMeeting

TYPE OF MEETING	EAG meeting
FACILITATOR	Sam Paris
NOTE TAKER	Lindsay Partain
CALL-IN NUMBER	(866) 899-4679; access code: 197-754-461
ATTENDEES	**EAG Members:** Bonny Ray, Oregon State University; David Moore, Tigard-Tualatin School District; Hasina Wittenberg, Special Districts; Heather Mercer, Western Oregon University; Jeff Rasmussen, Jefferson County; Jeff White, Marion County; Jess Jacobs, Linn-Benton Community College; LeAnne Roberts, Deschutes Public Library; Lori Sattenspiel, Oregon School Boards Association; Michelle Kirby, City of Portland; Michelle Morrison, Hillsboro School District; Nancy Brewer, City of Lebanon; Nathan Klinkhammer, Portland State University; Rich McDonald, Chemeketa Community College; Sandra Montoya, City of Woodburn; Shauna Tobiasson, Department of Administrative Services; Tricia Fiscus, Klamath Community College; Trudy Vidal, Department of Administrative Services; Tyler Janzen, Association of Oregon Counties **PERS:** Brandon Armatas; Carole Anne Boal; Cynthia Kirkwood; Eleanor Probasco; Elizabeth Rossman; Heather Case; Jake Winship; Kelley Raz; Kevin Olineck; Laurel Galego; Lindsay Partain; MaryMichelle Sosne; Sam Paris; Shawn Dempewolf; Stephanie Vaughn; Yvette Elledge-Rhodes **Guests:** Carol Samuels, Piper Sandler & Co.; Scott Preppernau and Matt Larrabee, Milliman

NOTES

TOPIC	**Welcome** Sam Paris
TIME: 10:00–10:02 AM	
Sam Paris, PERS Interim Chief Operations Officer, welcomed the Employer Advisory Group. Introduced new member Tyler Janzen who will be taking over Rob Bovett’s Governance portfolio at the Association of Oregon Counties.	

TOPIC	Director's Office update	Kevin Olineck
TIME: 10:02–10:09 AM		

Kevin Olineck, PERS Director, provided an update. Amid COVID-19, buildings continue to be closed to the public, all meetings continue to be held virtually, and the majority of staff are working remotely. "PERS by the Numbers" and the "Comprehensive Annual Financial Report" (CAFR) were published in December with updated statistics. The agency's requested budget was integrated into the Governor's Recommended Budget to continue working on Senate Bill 1049 as well as the PERS IT projects. Condensed budget talks should begin in March.

The next Board meeting will be on February 1, 2021. 2020 year-end results will be presented at the March 29 Board meeting The Oregon REQs CIO will be doing a presentation and going through year-end results. November numbers were 3.93% to the positive. Please note that Private Equity numbers have about a three-month reporting lag, so the December 31st numbers for OPER will show the September 30th numbers. The equity portfolio value stocks provide a longer term value, which is more defensive to avoid potential downturns. Year end results are not in, but we are hoping to see returns close to 6%. OIC has their packets and minutes available online.

TOPIC	Legislative update	Heather Case
TIME: 10:09–10:16 AM		

Heather Case, PERS Senior Policy Advisor, provided a legislative update. During legislative days in December, there were no actions that directly affected PERS, though the Legislature did provide for a salary pot and this time it was funded at 100%. It also had the 3rd special session of 2020, which convened and ended on December 21st. Legislature passed four bills around COVID-19, including $600 million to the Emergency Board for allocation in this biennium.

The 2021 Legislative Session began on Monday the 11th with an organizational week. The substantive legislative work is set to begin on Tuesday the 19th, but committee meetings may be delayed by a couple of days for security reasons. More than 3,000 bills have been filed for the 2021 session. Currently, there are 1,805 available online. Session will be conducted mostly remotely, with the exception of floor meetings, which will have restricted attendance.

PERS bills went through and were filed: Senate Bills 111, 112, and 113. Senate Bill 111 is an administrative fixes bill regarding an issue brought forward about teleworking out of state. Due to the OPSRP definition of salary, those who work for Oregon PERS participating employers, but work out of state, have a salary that is not subject to Oregon tax. Submitting a fix as part of Senate Bill 111 for salary to include salaries that "could be" subject to Oregon state income tax if the member were an Oregon resident to allow members who have been promised PERS benefits to continue to receive their benefits and contributions at the same level. No estimated fiscal impact. Senate Bill 112 is the common law employees' bill. Senate Bill 113 is for charging earnings on late contributions for IAP contributions specifically; clean-up of items that were missed in the initial 2003 OPSRP implementation. Will keep everyone updated on what is passed.

QUESTION: Member asked about House Bill 2223 that would with 90% or greater funded status trigger new required contributions. Any information?

ANSWER: Our understanding is that it would require employers to reimburse employee contributions for Member Redirect if PERS had a 90% or greater status.

TOPIC	SB 1049 update: project overview	Sam Paris
TIME: 10:16–11:02 AM		

Sam Paris gave a general update about the **SB 1049 Program**. It continues to be a high priority. Internally, we continue to see the program mature, and we are working on new functionality to help with the processes. If there are gaps in the communication, please bring it to our attention so they can be addressed. Sam went over the SB Road Map for the 2021–2023 biennium; many of the projects are due to be completed in the next six months. For items that will not be included, budget requests have been made.

Cyndy Kirkwood provided an update on **Member Choice** IAP Target-Date Funds (TDF). Member Choice TDF choices were effective January 1st, 2021. VOYA will have elections visible in mid-January. The member will not actually see the gains/losses associated with the election until they receive their statement in May of 2022. The next window will open Sept 1–30, 2021, for 2022 TDF elections.

Laurel Galego provided an update on **Work After Retirement**. We deployed an automatic update of wage code 07s to 17s, which successfully updated 96% of the suspended records. The remaining 4% are being handled by ESC staff and should be completed soon. Employers have been invoiced for contributions on retiree wages from 2020.

QUESTION: What is the “wash”? What progress is being made on the wash adjustments that affected employer invoices?

ANSWER: The wash is an automated batch process that occurs at the end of the calendar year to avoid outstanding balances. It allocates the funds so they begin with a zero balance at the beginning of the calendar year. We are identifying all employers who have been impacted and working on restoring those funds. All of the funds should be restored no later than the end of the biennium (June 30th, 2021). There is a procedure to communicate the manual adjustments that will be necessary. Most issues were caused by a one-time reporting of Work After Retirement after the calendar year of 2020, so there was no regular reporting to offset.

RESPONSE: More complete and proactive communication would be helpful so employers know how to address questions.

QUESTION: Request for further clarification.

ANSWER: The issue was that we tried to model the process for Work After Retirement contributions on how we apply regular contributions to regular members. But the contribution rate is set and applies to the following biennium, which is set as a percent of payroll. Milliman (PERS actuarial consultant) also provides a calculation for offsets. We assess a credit for those side accounts. When we established the Work After Retirement regular contributions, they could only be offset with payment rather than being satisfied by offset credits like regular contributions for active payroll. In December, there was notice provided that employers could now use the 17 and 18 wage codes. A number of employers submitted previously suspended or new accounts for Work After Retirement that could not be fully applied via the new process. Basically, it was showing credits but it was not reflecting in the amount due, so some employers with pull transactions had taken the full gross amount. This was complicated by the wash process, which went through and reset the accounts to zero. We are working through the employers affected and no one will lose their credits, they will be restored. Any employer who did not simultaneously have Work After Retirement payroll and a side account was not affected. The amount of Work After Retirement offset, in terms of dollars, would have to exceed the current period regular contributions.

ANSWER: There were 174 potentially impacted employers. The issue in sending out communication is that we weren't seeing employers impacted as we thought we would be. It wasn't necessarily affecting them along any certain patterns, so sending a mass communication out to all employers could have caused confusion and undue alarm. At the moment, there isn't a pattern for an employer type that is unduly affected.

QUESTION: Are employers who have/might have been affected been made aware?

ANSWER: On the 12/20 statement, we are keeping a list of employers and finding a query so we know whom to update.

10:42 AM: Brandon Armatas gave an update on **Salary Limit**. We successfully deployed new functionality on November 20, 2020, and now have new validations that will suspend a record if salary exceeds the annual salary limit. Additionally, we've moved into the new calendar year and updated the annual limit for 2021 based on the Consumer Price Index. The new limit is $197,730 effective January 1st, 2021. The new limit and validations are in place. Partial-year prorated monthly amounts are also updated, and the new limit for one month is $16,777. The PERS website has been updated to provide this information.

Sam Paris gave an update on **Member Redirect**. The minimum threshold for Member Redirect was updated based on the Consumer Price Index and is $2,535, effective 01/01/2021. There should be no employer impact as the system is handling the validation. In terms of Voluntary Contributions, we received 4,116 elections. Of those, 2,360 selected retroactive contributions back to July 1, 2020. The window to choose retroactive contributions closed on October 31st, 2020.

Locking member data: We are unable to implement this concept while we are implementing Senate Bill 1049. We are getting a better understanding of how we will be working through this process and implementing it into our system. We are unable to invoice members for prior year earnings and have funds cover the invoices. Until we can implement locking data, we will need to continue implementing our current processes.

Reporting best practice: When an employer is notified of an employee's voluntary contribution election, we recommend withholding the amount. You are not responsible for determining whether the employee meets the requirements or minimum salary. Our system does that automatically.

Jake Winship with the **Employer Programs** update. The Employer Rate Projection Tool will be updated with new data in February. The new tool should be ready in July 2021. The new tool will be a more stable and modern platform upon which we can add functionality that is not possible with the current tool. Focus for initial deployment is to keep the same functionality and have future releases that add new features.

QUESTION: What kinds of new functionality will the tool have?

ANSWER: Essentially, an employer would go to the Employer website, select the Employer Rate Projection Tool, and then download the Excel file that has macros enabled. The employer would go through and confirm/enter their projection data and then get the output. The new tool will perform the same calculations, but now it will be web-resident with stronger security. Working on a cycle of regular enhancements—adjust payroll growth, ability to see multiple side accounts, and additional annuitization periods for side accounts (accounts that exceed $1 million). Wanting the capacity to build new functions on a regular basis.

Jake Winship gave an update on the **UAL Resolution Program**. We made website updates to make it easier to locate the new UALRP guides. The "Guide to Understanding Your Rate" is available in the actuarial section of the website. Actively developing the next guide, "Guide to Understanding Your Valuation," which will be released in February. It has three annotated valuation reports included: one for each employer pool. Next up will be the "Guide to Understanding Unfunded Actuarial Liability."

REQUEST: Request for more communication regarding the availability of information. Is there a way to send out an email letting employers know that the website has been updated or what documents are available?

TOPIC	**Communications Update**	Shawn Dempewolf
TIME: 11:02–11:12		

Shawn Dempewolf, PERS Employer Communications Specialist, gave a general Communications update regarding the website and upcoming employer focus groups. Recent changes include an update to the Salary Limit webpage for full and partial year, including updated example scenarios. Updated the new Member Redirect information and new Work After Retirement wage codes. Placed a new expanded sidebar on the left of every page. On the main Senate Bill 1049 webpage, we added a list of quick links. Also on the Senate Bill page, we made links to related webpages more prominent.

Future updates include: migrating the whole agency website to the new state agency template and taking a deep-dive into how the site should be organized. We will need volunteers to participate in a "card-sorting" exercise to help determine the organization of the new website. If you're interested in participating in this exercise, please email the EAG inbox at Employer_Advisory_Group@pers.state.or.us. You can also find more information on the website.

TOPIC	**Rate Collaring/Financial Modeling**	Jake Winship
TIME: 11:12–11:52		

Jake Winship, PERS Manager, Actuarial Activities, introduced the topic and invited Scott Preppernau and Matt Larrabee from Milliman to present and give an update on valuation reports.

Scott Preppernau gave a condensed version of the Financial Modeling presentation that was given in December 2020. This year, the exercise was on rate collaring in addition to the usual rate-setting process. The rate collaring is meant to give stability in the process. For most employers, the rate collar was no longer restricting the rate (equal for most employers) and will be paid in the biennium. Will be looking at the current parameters of the rate collar and if there are any adjustments that need to be made.

Collars are calculated at a rate pool level and limit the biennium-to-biennium increase in the UAL rate for a given rate pool. The discussion in December was really to set up for next year's method and review process. The 2023–25 rates assume that 7.2% rate of return per year is achieved. Collared base pension rates are projected to increase from 2021–23 rates due to asset underperformance so far during 2020. 2020 System Funded Status decreased due to estimated year-end 2020 investment returns. In a steady +7.2% return scenario, funded status is projected to reach 95% in 2038.

Collaring Alternatives Modeled: Currently, single collar is greater of 3% of pay or 20% of current rate.

- No double collar: Same as current policy except only single collar is used.
- Fixed percent (4% / 1%): Rate collar defined as a fixed percentage of payroll rather than as a percentage of the current rate.
- Fixed percent (4% / 1%): Essentially the same as the above, but would also have that rates won't drop at all unless funded status is greater than 90%.

If there are any modeling collars that you feel are preferable or meaningful from an employer perspective, feedback to Milliman is greatly appreciated. We are working with Oregon Treasury, who want to make sure they understand what we're doing and make it more understandable to all parties. The full presentation and Board meeting recordings are available online.

QUESTION: In the existing scenario, at the 5th percentile of returns, is the collaring having an effect? Were any scenarios explored that made the collar less likely to be applied?

ANSWER: It would, but it would be the widest extent of the double collaring. Those scenarios have been explored but are not in this presentation. Essentially, the width of the collar right now is wide enough that at times it may defer rates, but by the end of the period you don't see a big difference as it's already a pretty wide change biennium to biennium, just given where the system is now.

QUESTION: At year 2038, is this also building in a continued shift from Tier One/Two to OPSRP? Why are we limiting the OPSRP side at such a low level than on the Tier One/Two side?

ANSWER: As we are currently looking at the OPSRP, on average the OPSRP normal cost rate is somewhere around 9% and the UAL rate has been around 1.5% of pay. Overall, the total OPSRP rate that goes into the collar is in maybe 10% to 11% of pay. A 1% or 2% move is quite impactful and would cover most scenarios gains/losses and to come through after a biennium and is comparable to the Tier One/Tier Two.

QUESTION: 4% optically seems like a backward step, but sounds like if you moved it to 5% it would have limited impact. Wonder if from a perception standpoint and for ease of understanding if running at a 5/1 would be better or just saying a 5% total?

ANSWER: The 4/1 policy for the system average employer does create a 5% increase with a 4% on Tier One/Tier Two and a 1% on UAL, but we could potentially still consider a widening of the collar. Unfortunately, we have found that due to rate pools it does complicate the information, so giving a 5% total doesn't give a way to equitably impact employers in the system.

TOPIC	**Additional Items**	Sam Paris
TIME: 11:52–12:00		

Jake Winship covered the **Valuation Reports**. Prior rate information has been reviewed. Working with Milliman on ways to best display that information. It's not particularly feasible to expand the current table that's near the valuation report given the amount of information that's already provided. Additional columns will create issues with size and readability; options are being explored to fix this issue. A PDF document is available on the PERS Actuarial webpage that will show the current valuation rates for each employer at OPSRP, Tier One, and Tier Two rates at a summary level. Looking to finalize the implementation strategy and notify impacted employers. Further questions on this can go to: actuarial.services@pers.state.or.us

Brandon Armatas gave an update on the **OPSRP First Wage Clean-Up Project** and **Employer Reporting**. We are done with the data review and are now focused on building out the implementation plan. This is taking longer than anticipated and are working hard on having a projected realistic date and tangible data to present, but we want to assure EAG that work is being done on this project. Future plans include finalizing the implementation strategy, notifying impacted employers, and initiating rollout.

Secondly, we are requesting your assistance on encouraging timely employer reporting. We need help communicating that every employer must be as timely as possible with reporting. Noticing more frequent missing DTL1 records and/or DTL1 records reported after DLT2, which leads to suspended DTL2 records. If there are any questions, needs for assistance, or feedback, the ESC staff (Laurel Galego) is always ready and willing to help clear suspended records or provide support with reporting issues if and when they arise.

TOPIC	**Questions**	Sam Paris
TIME: 12:00–12:02		
Sam opened the floor to allow EAG members to ask any other follow-up questions (*none*) and highlighted the upcoming meetings that may be of interest. Any additional feedback on these meetings and items you would like to have discussed is always appreciated. Please direct these emails to the EAG inbox.		

Next meeting facilitator: Sam Paris
Next meeting date and time: April 16, 2021, 10:00 a.m.–12:00 p.m.