



Oregon

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Public Employees Retirement System

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TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: 2011-13 Employer Rate Setting Options

BACKGROUND

At its November 20, 2009 meeting, the PERS Board was presented with the policy question of how to implement the employer rate collar. This question arises because the December 31, 2009 system valuation will likely result in the majority of employers crossing the 80% funding status threshold that currently triggers a doubling of the collared rate change. PERS staff and Mercer have further developed three options for the Board's consideration:

- Status Quo: Make no changes to the current rate collar implementation. For those employers whose funded status for employer rate setting drops below 80%, their base rate will increase by 6% of PERS covered payroll, beginning July 1, 2011.
- Revised: Revise the implementation of the rate collar so that the base rate increases incrementally from 3% to 6% of PERS covered payroll, based on the employer's rate setting funded status on a sliding scale from 80% to 70% funded.
- Ad Hoc: Impose a one-time rate collar limit of a 3% of PERS covered payroll increase for the 2011-13 biennium only on employer base rates, regardless of the employer's funded status.

The chart attached to this memo shows the net rate change and projected 2011-13 biennial aggregate fiscal impact on groups of employers under the three options using November 30, 2009 fund earnings as a proxy for calendar year returns. Please note that, under all three options, the rate offset provided by an employer's side account (if any) is not affected. Neither PERS staff nor the actuary recommends that the PERS Board revise the methods for calculation of side account offsets to an employer's base contribution rate.

PUBLIC COMMENT

These materials were distributed to the PERS Board's interested parties in advance of the January 29, 2010 meeting. Any comments received prior to that date will be distributed to the Board, including requests to address the Board at the meeting.

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BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt the staff and actuary’s recommended revised implementation to the employer rate collar, as presented.”
2. Adopt one of the other options presented or direct staff and the actuary to further develop other policy options for the Board’s consideration.

STAFF RECOMMENDATION

Staff recommends the Board adopt the revised rate collar implementation option as noted above.

- Reason: Mercer’s presentation analyzes the double rate collar implementation options against the Board’s established principles that are applied when considering changes to actuarial methods. That analysis demonstrates that revising the rate collar implementation as described most closely aligns with those principles.

C.3. Attachment 1: Employer Rate Setting Policy Options Chart

Employer Rate Setting Policy Options

	2007-2009 (actual)	2009-2011 (actual)	2011-2013* Status Quo	2011-2013* Revised	2011-2013* Ad Hoc
State Agencies					
Net Employer Rate	7.0%	3.3%	12.4%	10.6%	9.4%
Contributions (\$M)	\$296	\$149	\$611	\$522	\$463
School Districts					
Net Employer Rate	8.4%	5.3%	13.1%	12.5%	10.1%
Contributions (\$M)	\$455	\$310	\$823	\$785	\$634
Independents (Others)					
Net Employer Rate	9.0%	6.5%	13.1%	11.0%	10.1%
Contributions (\$M)	\$543	\$421	\$912	\$766	\$703
System Totals					
Net Employer Rate	8.3%	5.2%	12.9%	11.4%	9.9%
Contributions (\$M)	\$1,294	\$880	\$2,346	\$2,073	\$1,800

“Net Employer Rate” are average rates that include Side Account offsets but not IAP contributions or the costs of debt service on Pension Obligation Bonds. Contributions are total new dollars coming into the system, by biennium.

Status Quo: No changes to current methods (6% rate increase if <80% funded, with full side account reset)

Revised Implementation: Adopt a sliding scale rate collar, moving from 3% rate at 80% funded to a 6% rate at 70% funded, instead of the current “cliff” rates moving from 3% to 6% if <80% funded.

Ad Hoc: Use a 3% rate collar limit FOR 2011-13 ONLY (with full side account reset)

*Based on reported fund earnings as of November 30, 2009