

Oregon Public Employees Retirement System

Status Update

Presentation to the Joint Ways and Means Committee

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PERS' Funded Status

- At the end of 2008, PERS was about 80 percent funded including employer side accounts
 - PERS was 65 percent funded before the last market recovery that began in early 2003
 - U.S. public retirement systems averaged 86 percent funding in 2007, before the 2008 market downturn
 - Average U.S. public retirement system funded status was below 65 percent at the end of 2008
- With 2009 earnings of about 19 percent, PERS' funded status is estimated to be about 87 percent as of December 31, 2009

System Funding – Stabilized Liabilities

- PERS' funded status varied dramatically until 2003 because of uncontrolled liability growth: double-digit earnings crediting in the 1990s fueled liability increases as account balances ballooned while Tier One member account balances continued to grow at 8% (assumed earnings rate) regardless of market performance
- PERS Reform legislation in 2003 stabilized liability growth because member contributions were diverted to IAP accounts, where members bear the risk of investment gains or losses, and Tier One earnings crediting was limited to the assumed rate

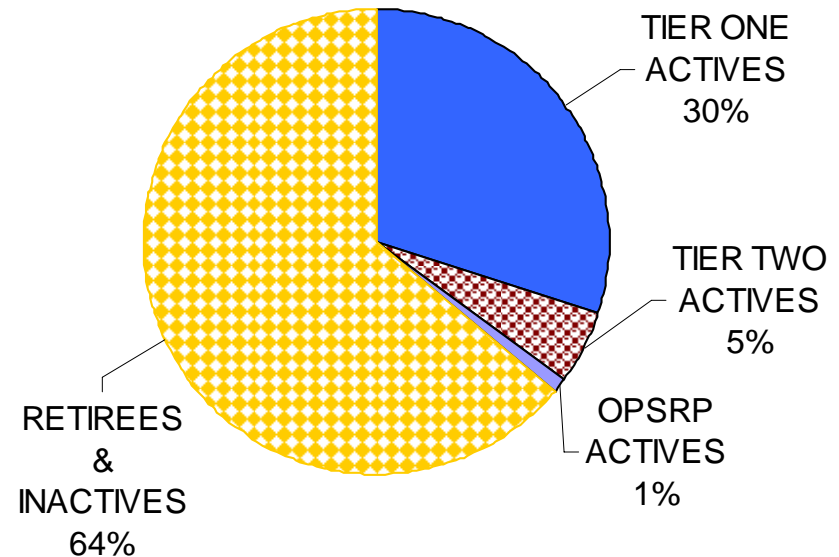
System Funding – Asset Recovery

- PERS now faces an asset recovery problem. The PERS Fund's 2008 losses will be addressed based on the following parameters:
 - Unfunded liabilities are amortized over 20 years, again allowing long-term investment strategies to recover from periodic losses
 - Employer rate changes are moderated by a rate collar, which limits rate increases and decreases to no more than 3% of payroll, but allowing swings of up to 6% based on funded status
 - Employer contribution rates benefit from compounding over the member's career; investment earnings have funded 69% of benefit costs from 1970-2009

Benefit Funding = Investment Earnings + Contributions

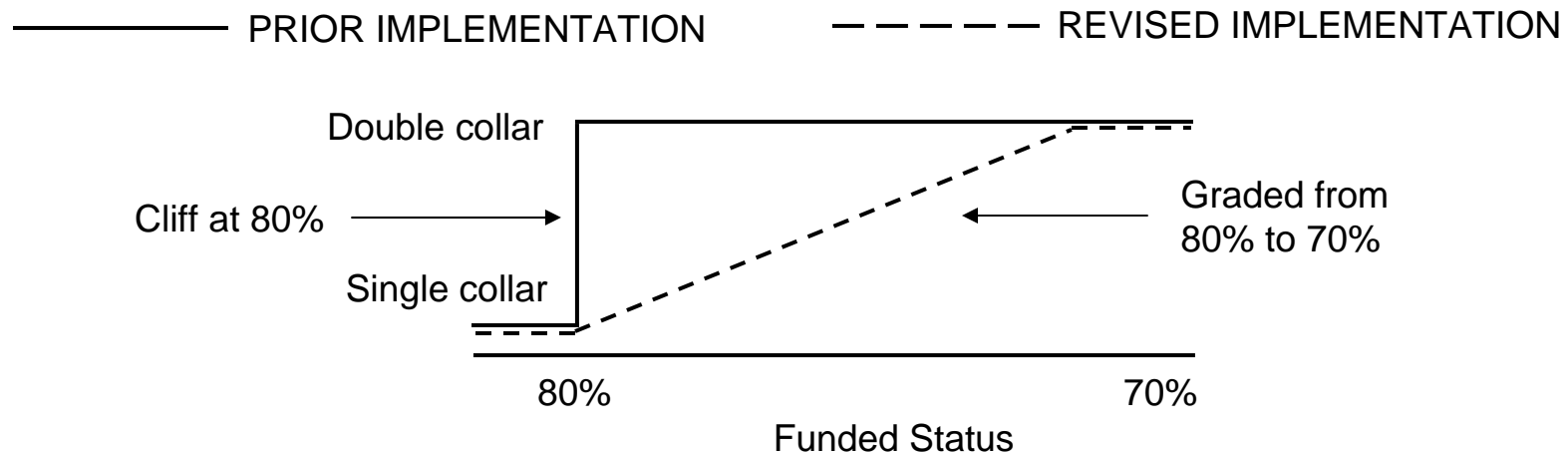
PERS is a mature system

- 64 percent of accrued liabilities are for retirees and inactive members
- 30 percent of total liabilities are attributed to active Tier One members; almost half of that liability is for Tier One members aged 55 or older
- A low ratio of active members to retirees and a proportionately smaller salary base means changes in investment returns have a greater impact on employer rates than in other systems

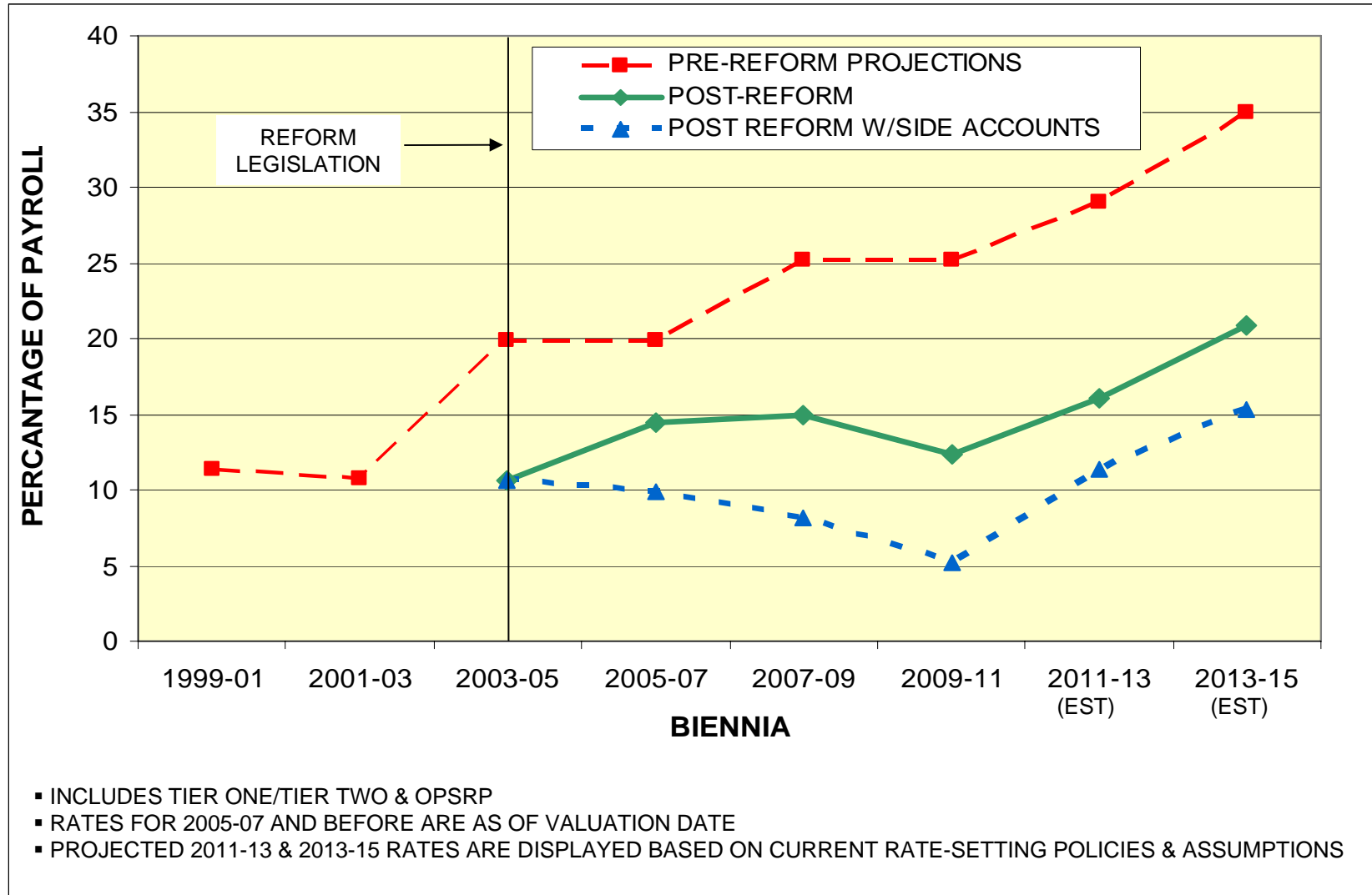


Revised Rate Collar Implementation

- At its January 29, 2010 meeting, the PERS Board revised the rate collar implementation for the 2011-2013 biennium
- The base employer rate will increase incrementally from 3 to 6 percent of PERS-covered payroll based on the employer's funded status on a sliding scale from 80 to 70 percent funded
- Eliminates the arbitrary cliff increase at 80 percent funded status and better aligns rate increases with an employer's funded status



PERS Employer Rates: Pre-Reform Projected vs. Post-Reform Actual



Financial Statistics (as of December 31, 2009)

Statistics (Estimated)	Without Side Accounts (\$ Billions)	With Side Accounts (\$ Billions)
Accrued liabilities	\$56.2	\$56.2
Actuarial value of assets	\$43.3	\$43.3
Side account balances	\$0.0	\$5.5
Total actuarial value of assets	\$43.3	\$48.8
Unfunded actuarial liability (UAL)	\$12.9	\$7.4
Funded status	77%	87%
Average employer rate 2011-13	15.80%	10.60%

Assumptions:

1. Assets based on earnings as of December 31, 2009 of 19.4%
2. Includes Tier One/Tier Two and OPSRP

PERS Costs for State Agencies

(estimated using December 31, 2009 returns)

Biennium	Employer Rates*	Side Account Offset	Net Employer Rate	Bond Payment	Member Contributions	Total PERS Cost
2007-09	16.01%	-9.47%	6.54%	5.95%	6.00%	18.49%
2009-11	13.11%	-9.83%	3.28%	5.95%	6.00%	15.23%
2011-13	16.70%	-6.90%	9.80%	5.95%	6.00%	21.75%
Difference (09-11 to 11-13)	3.59%	2.93%	6.52%	0.00%	0.00%	6.52%

*Includes Retiree Health Insurance costs

2009 *Preliminary* Earnings Crediting

- Tier One member regular accounts are guaranteed 8% crediting annually; earnings above 8% are required by law to be placed in the Tier One Rate Guarantee Reserve
- The PERS Board emptied this Reserve and created a deficit of \$1 billion to credit the required 8% earnings to Tier One member accounts in 2008; 2009 earnings on those accounts will reduce that deficit to under \$425 million
- Preliminary crediting rates to other accounts and reserves:

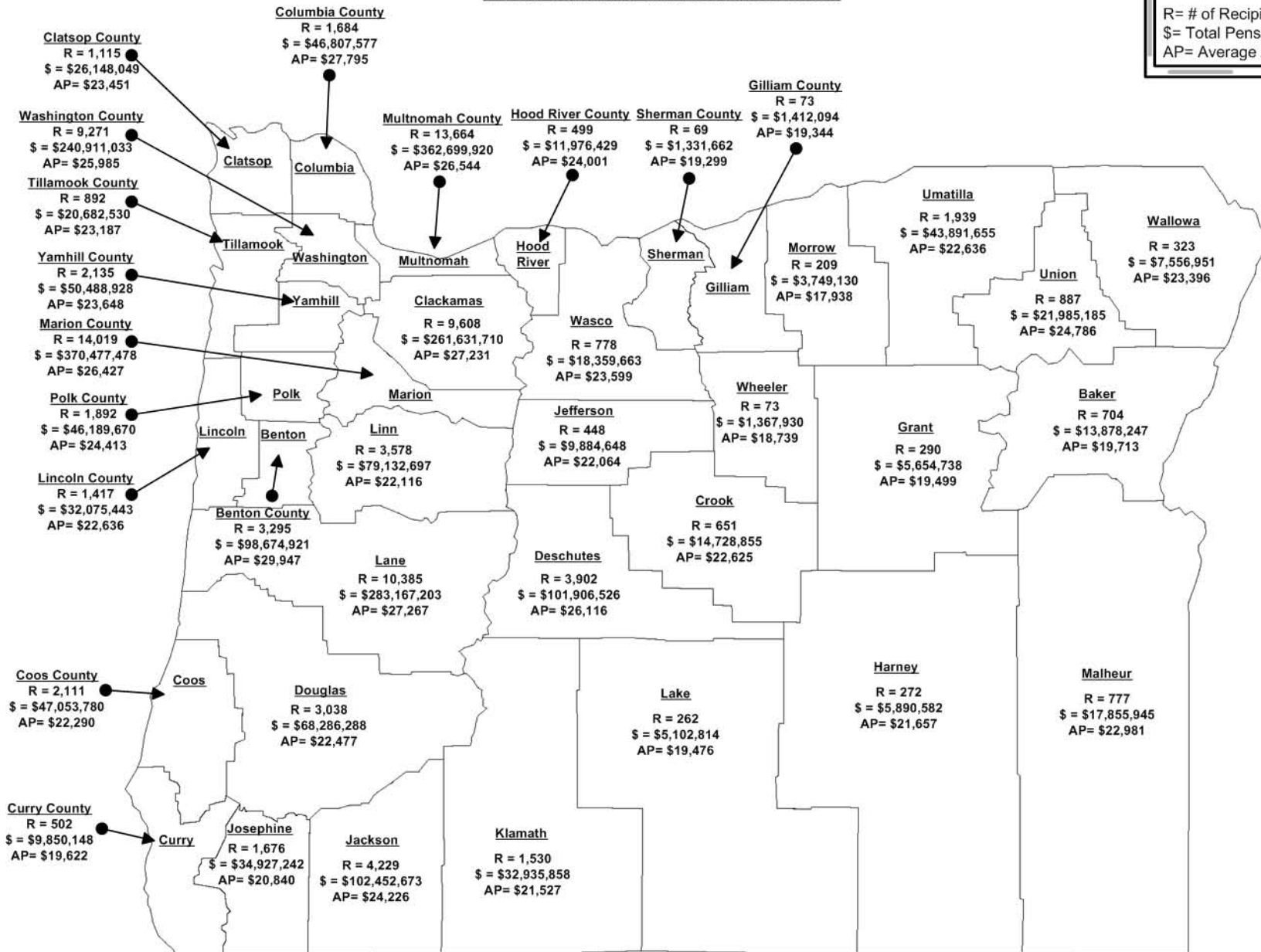
Tier Two member regular accounts	19.13%
Employer and Benefits-in-Force reserves	19.13%
Individual Account Program accounts	18.48%
Member Variable accounts	37.46%
- OPSRP Pension Program members have a formula-based retirement with no account balance

Total Benefit Payments by County

1/25/2010 – Data Source: IRSM File for the 2009 Tax Year

LEGEND

R= # of Recipients on Pension Roll
 \$= Total Pension Roll for the County
 AP= Average Annual Payment



Public Employees Retirement System

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<http://oregon.gov/PERS>