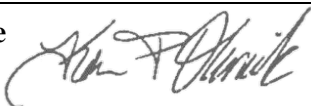


Oregon Public Employees Retirement System	Posted date 10/03/2023	Number 1.03.03.01.001.POL
Signature 	Approval date 9/29/2023	Page 1 of 9
Policy:	PERS Funding	
Objective:	Explains the funding administration objectives of the PERS Board.	
References:	See the references listed at the end of this policy.	

Policy

Statutory authority

Oregon Revised Statutes Chapter 238 sets out the statutory duties of the PERS Board (“the Board” for the purposes of this document), including:

- Administer the system to create and maintain long-term stability and viability in the PERS System (“the System”) and shall act to achieve full funding for the benefits provided by the system, giving equal consideration to the interests of the public employer and the employee, to the extent that treatment does not violate the fiduciary duties of the Board.
- Publish an actuarial report at least once every two years, evaluating the system’s current and prospective assets and liabilities and its financial condition, including the mortality, disability, and other experience of the members and employers.
- Adopt actuarial equivalency factor tables at least once every two years using the best actuarial information on mortality available at the time of adoption.

Funding-policy background

A funding policy provides a transparent, dependable, and systematic process to ensure system-funding objectives are met over the long term. As fiduciaries of the System, the Board has a fundamental objective to ensure the System is adequately funded through current plan assets and future contributions and investment earnings in order to provide the benefits to the members when due.

In 2004, the Board adopted high-level objectives to assist in guiding the funding of the System as follows:

- Transparency of shortfall and funded status calculations
- Predictable and stable employer contribution rates
- Protection of the System’s funded status to enhance benefit security for members
- Equity across generations of taxpayers funding the program

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- Actuarial soundness — fully fund the System over a selected time period if assumptions are met
- Compliance with GASB (Governmental Accounting Standards Board) requirements

While the Board acknowledges there are inherent conflicts and tensions between the objectives noted above, it recognizes that funding-policy decisions should be aligned with the long-term nature of the plans and the System’s funding objectives.

The PERS funding equation

The Board, as part of this funding policy, acknowledges the fundamental equation of pension plan financing, the role various entities, including the Board, play within that equation, and the fact that the Board’s primary responsibility within the equation is to set a contribution rate that contributes to balancing this equation.

$$B = C + E$$

BENEFITS present value of earned benefits Design set by: Oregon Legislature	=	CONTRIBUTIONS employer and member funds to pay pension benefits Set by: PERS Board	+	EARNINGS future returns on invested funds Managed by: Oregon Investment Council
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Investment decisions and oversight

The Board is not charged with the investment of the PERS Fund. The Oregon Investment Council (OIC) oversees the investment and allocation of all state of Oregon trust funds, including the Oregon Public Employees Retirement Fund (OPERF). The three primary governance documents that guide the OIC are as follows:

- *Statement of OIC Investment Beliefs and Management Beliefs*
- *Statement of Funds Governance*
- *Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund*

While the Board and the OIC are separate entities and operate accordingly, there is an obvious and necessary requirement for the two entities to be aware of and informed by the other’s decisions. To that end, the Board and OIC have instituted regular joint meetings that take place in June of odd-numbered years. These meetings follow the spring OIC meeting where the OIC typically reviews and adopts the OPERF asset allocation policy, including up-to-date market expectations for future investment returns, and precedes the PERS Board meeting, where the

Board adopts new actuarial assumptions and methodologies, including the actuarial assumed rate of return to be used in future actuarial valuations and actuarial equivalency factors.

Additionally, the PERS Director is an ex-officio member of the OIC and is charged with keeping the OIC informed of any changes to the PERS System that may impact OPERF. As an OIC member, the PERS Director also keeps the PERS Board informed of OIC policies that may impact OPERF.

Contribution rate-setting cycle

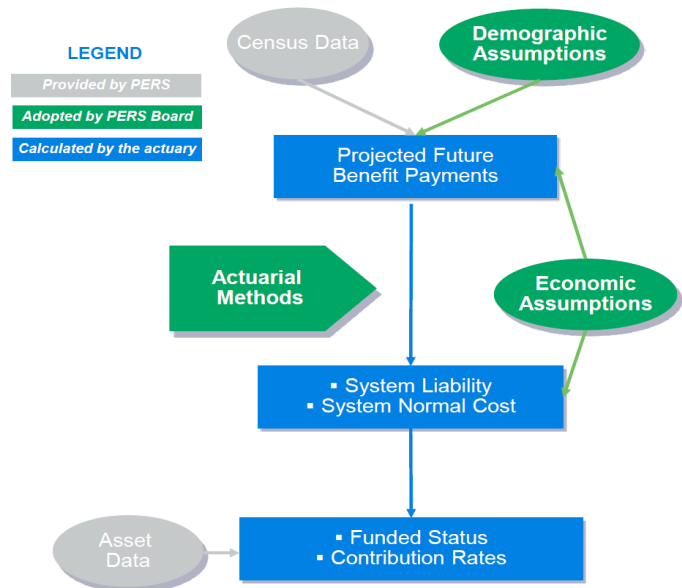
The Board has established a two-year cycle for completing actuarial valuations. The analysis and valuations done in an odd-numbered year (i.e., 2023, with results as of December 31, 2022) are deemed to be “advisory” valuations, in that they do not directly impact employer contribution rates. Instead, these results allow employers an opportunity to understand what their estimated contribution rates are in order to appropriately budget for future contributions. In the even-numbered years (i.e., 2024, with results as of December 31, 2023), the actuarial results are reviewed and formally adopted by the Board, and the next biennium’s (i.e. July 1, 2025, through June 30, 2027) employer contribution rates are set based on those results.

Biennial actuarial experience studies and adoption of actuarial assumptions and methodologies

In odd-numbered years, as part of the biennial contribution rate-setting cycle noted above, the Board, over multiple meetings, shall review, and ultimately adopt as necessary, revised actuarial assumptions and methodologies. As part of this review cycle, the consulting actuary will perform an actuarial experience study to assist the Board in reviewing the experience of the System and provide a recommendation on changes to assumptions and methodologies.

Two-Year Rate-Setting Cycle

- **July 2023: Assumptions & methods adopted by Board in consultation with the actuary**
- September 2023: System-wide 12/31/22 actuarial valuation results
- December 2023: Advisory 2025-2027 employer-specific contribution rates
- July 2024: System-wide 12/31/23 actuarial valuation results
- September 2024: Disclosure & adoption of employer-specific **2025-2027 contribution rates**



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The adopted assumptions and methodologies shall remain in effect for the next two-year valuation cycle absent any subsequent action by the Oregon Legislature that would modify either the assumptions and methods or the level of projected System benefits.

Actuarial methodology

The following are the key actuarial assumptions and methodologies adopted by the Board in 2023.

Method	December 31, 2022, and December 31, 2023, Valuations
Investment Return Assumption	6.90%
Cost Method	Entry Age Normal
Funded Status	The actuarial value of assets expressed as a percentage of the actuarial accrued liability. For the purposes of this policy, funded status is determined without taking side account balances into effect.
Asset Valuation Method	Market value of assets, excluding amounts in the Contingency Reserve, Capital Preservation Reserve, and Tier One Rate Guarantee Reserve. If the Tier One Rate Guarantee Reserve is in a deficit status, the market value of assets will be reduced by the amount of deficit.
Unfunded Actuarial Liability (UAL) Amortization Method	UAL amortized using closed, layered periods as a level percent of combined Tier One/Tier Two and OPSRP payroll.
UAL Amortization Period	<p>UAL bases – closed amortization from the first rate-setting valuation in which experience is recognized.</p> <ul style="list-style-type: none"> • For the December 31, 2019, valuation only, all existing Tier One and Tier Two UALs were re-amortized over a 22-year period as per SB 1049 (2019). The closed-period amortization under Senate Bill 1049 will continue to decline and will have 20 years remaining as of the December 31, 2021, rate-setting valuation. • Future Tier One/Tier Two UAL gains or losses will be amortized over 20 years.

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	<ul style="list-style-type: none"> • OPSRP – 16 year amortization period. • RHIA/RHIPA – 10-year amortization period. When funded status is over 100% at a rate-setting valuation, amortize the actuarial surplus over Tier One/Tier Two payroll using a rolling 20-year amortization basis. Allow the resulting negative UAL rate to offset the normal cost for the program, but do not allow contribution rates below 0.0%. If either program subsequently falls below 100%, the UAL will then be amortized over the combined payroll following the existing 10-year closed, layered amortization policy. • Newly established side accounts – Aligned with the new Tier One/Tier Two base from the most recent rate-setting valuation. Employers who make lump-sum payments in accordance with the rules of OAR 459-009-0086(9) may select a shorter amortization period of either six, 10, or 16 years since the most recent rate-setting valuation. There is a lag adjustment to the amortization period to reflect the delay between when the calculation occurs and when the new rate is effective. • Newly established transition liabilities or surpluses (State and Local Government Rate Pool) – will amortize to July 1 after the scheduled end date (18 years) to align with rate change timing.
Rate Collar	<p>Change in UAL Rate contribution rate component limited to:</p> <ul style="list-style-type: none"> • 3% of payroll for Tier One/Tier Two SLGRP (State and Local Government Rate Pool) and Tier One/Tier Two School District Rate Pool. • 1% of payroll for OPSRP. • 4% of payroll for Tier One/Tier Two UAL rate of independent employers, but not less than one-third of the difference between the most recent uncollared and collared UAL rate. <p>Additionally, the UAL rate would not be allowed to decrease for a rate pool until the pool’s funded percentage, excluding side accounts, is over 87% and would not reflect the full collar width until reaching 90% funded.</p> <p>Exclude pension normal cost and RHIA and RHIPA rates from the rate-collar calculation.</p>

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Actuarially determined contributions and rate collaring

It is the Board's responsibility to determine, for the next biennium, the actuarially determined contribution rate (ADC). This contribution rate will be calculated in a manner that will fully and systematically fund the long-term costs of promised benefits, while balancing the competing funding objectives noted above.

It is important to note that, for the purposes of describing the ADC, the Board takes into account the rate-collaring process set out in the actuarial assumptions and methodologies. The ADC is then described as the collared rate. This policy for determining the ADC has been in effect since it was adopted by the Board for the December 31, 2005, actuarial valuation, which set contribution rates for the 2007-09 biennium. After an extensive review over multiple meetings, a new methodology was adopted by the Board at the July 2021 board meeting. The collared rate for an experience-sharing pool consists of the UAL rate, as limited by the rate collar, and the normal cost rate, which is not limited.

In addition to the pension contributions noted above, all employers contribute to the Retirement Health Insurance Account (RHIA). Further, state agencies and state judiciary also contribute to the Retiree Health Insurance Premium Account (RHIPA). The Board has determined that the normal cost rates of RHIA and RHIPA are charged only to Tier One/Tier Two payrolls, as only Tier One and Tier Two members are eligible for these benefits. Any new RHIA and RHIPA UAL rates would be charged to all Tier One and Tier Two payrolls.

Contribution-rate volatility under ADC funding can be mitigated using a number of smoothing techniques, either on the inputs (e.g., asset smoothing) or the output, which is the contribution rate (i.e., rate collaring). Asset smoothing is an actuarial method used to systematically recognize gains and losses in assets over a predetermined period of time (typically five years) to reduce the effects of market volatility and provide stability to actuarially calculated contribution levels. The net effect is the same: smoothing of contribution rates.

The Conference of Consulting Actuaries has stated that use of the rate-collaring methodology is acceptable so long as it is "supported by analysis and projections to show the effect on future funded status and future policy based contribution requirements (prior to the application of the contribution collar). There may also need to be a mechanism to ensure adequate funding following extraordinary actuarial losses." These elements are satisfied by PERS' rate-collaring methodology.

Funding risks

In order to fund the plans at an acceptable projected budgetary contribution cost over the long term, taking on a degree of investment and other funding risks is considered appropriate. The Board is responsible for determining the appropriate overall level of funding risk and determining strategies to mitigate the funding risks as needed. Examples of these strategies include performing yearly actuarial valuations, yearly stochastic financial modeling exercises, and a full experience study on a biannual basis.

The plans are impacted by a range of economic risk factors, including inflation rates and interest rates. Inflation rates can affect overall salary increases, while interest rates can impact the present value of plan liabilities and investment returns.

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Investment risk is a significant factor that affects the funding of the plans. Investment performance has a direct influence on the plans' funded status, and changes to future investment return expectations influence both the funded status and the projected level of the plans' actuarially calculated contribution rates. The Board considers the OIC's up-to-date market expectations for future investment returns, which includes investment risk, as part of their overall risk review.

Demographic risk factors for the plans include the general characteristics of the plans' populations, such as: member age, sex, marital status, expected longevity, salary progression rates, termination rates, and early retirement rates. These variables directly impact the projected pension liability, and there is a risk that the plans' demographic experience varies from the projection. While demographic factors, in general change slowly over the short term, they are important drivers of long-term plan funding risk, particularly long-term longevity factors for retiree life expectancy.

The distinction between Tier One, Tier Two, and Oregon Public Service Retirement Plan (OPSRP) membership is an important demographic risk factor, since the contribution rates paid by an employer vary by payroll type.

The risks related to having assets readily available to fund benefit payments, when needed, requires effective management of the plans' liquidity. To the extent that the average duration of the plans' liabilities is relatively long, with no immediate net cash outflow, the assets may be managed with a longer time horizon, exhibiting low liquidity and higher equity allocation. When a greater proportion of assets invested by the OIC are expected to directly support near-term benefit payments, managing the liquidity risk related to asset-liability matching will be increasingly important.

Public sector pension plans face a level of scrutiny and attention not faced by other pension plans. There is a risk that funding decisions can become unduly influenced by temporary external pressures or opinions. Adopting a funding policy establishes a solid framework for funding decisions and helps mitigate this risk.

Governance of the plans requires careful coordination between many entities – the PERS Board, OIC, and the Oregon Legislature. Authority, accountability, cost monitoring, and reporting related to the plans can be challenging given the distributed nature of the governance structure.

Confidence in the risk assessment of the plans depends on plan data, computer systems, programs, and risk models used to conduct this assessment. Confidence also depends on the transparency, understandability, and soundness of the Board's funding policy. Ensuring accuracy of plan data, systems, and models is important to mitigate risk.

Review cycle

This funding policy will be reviewed biennially as part of the odd-numbered year review of the System's actuarial assumptions and methodologies.

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