



INTRODUCTION TO ETOB TESTING

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

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What does ETOB stand for and who gets tested?

- Equal
 - To
 - Or
 - Better than
-
- Employers with police and fire employees
 - Testing occurs if some or all active police and fire employees are not in PERS

Which benefits get tested?

- Employer-funded pension benefits
 - Employee-funded benefits are excluded from testing
- Focus on benefits:
 - Overall expected employer cost (or value to employee)
 - Available to employees retiring from active service
 - Exiting active service due to disability
- Under current administrative rule, does not reflect:
 - Portability of benefits
 - Tax advantages
 - Social Security participation
 - Workers' compensation

When is testing done?

- Last completed in 2010
- Scheduled completion for next test is 2022
 - Statutory requirement to test at least every 12 years

How many entities were tested last time?

- Ten different entities
- Plan types tested were:
 - Traditional final pay defined benefit monthly annuity
 - Defined contribution account balance
 - Cash balance (hybrid of above two plan types)

What guidance governs the testing?

- Statute
- Administrative rule
- For the 2010 test, the PERS Board further established guiding principles for ETOB testing:
 - Comparability
 - Durability
 - Cost effectiveness

How were test results calculated last time?

- Testing done tier by tier, per statute
 - Separate tests for Tier 1, Tier 2 and OPSRP
- Pass/fail testing for each tier at an employer level
 - Not at an individual employee level
- Testing was based on expected cost of benefit structure
 - Actual after-the-fact benefit outcomes were not tested
 - Consistent with prior testing iterations
- Testing used the PERS active data for each tier
 - Provides more stable test results
 - Avoids costs of data collection and review

Who decides the results and who pays for the testing?

- Statutorily, the PERS Board is responsible for pass/fail determinations
- Financially, entities must pay for the cost of testing

What happens if an employer fails its test?

- If an employer fails, it must make changes to pass
 - In the 2010 test, two employers with defined contribution plans did not originally pass the ETOB test for employees who would have been in PERS Tier 2 based on hire date
 - We understand those employers worked with PERS to determine additional benefits for their affected employees to bring them into compliance

What are some potential concerns over testing?

- Potential conflict of interest concerns
 - Milliman is the actuary for several tested entities' plans
- Magnitude and cost of testing
 - A few entities are sizeable, but some are very small
- Differing perspectives on what a “disability” benefit is
- Should defined benefit and defined contribution plans have the same or differing investment return assumptions
- Assumption basis to convert defined contribution account balances to defined benefit monthly annuities for purposes of testing comparison, or vice versa

What are next steps after this meeting?

- Staff and actuary
 - Solicitation of feedback
 - Employer identification and outreach
 - Development of timeline
 - Development of proposed testing structure
- Board approves approach and estimated timeline