PERS EMPLOYER ADVISORY GROUP MEETING

Date: 1/20/2023 Time: 10:00 a.m. – 12:00 p.m. Location: MS Teams

TYPE OF MEETING	EAG Meeting
FACILITATOR	Sam Paris
NOTE TAKER	Alex Gaub
CALL-IN NUMBER	+1 971-300-4342 Phone Conference ID: 715 143 891#
ATTENDEES	**EAG Members:** Jeff White, Association of Oregon Counties; Nancy Brewer, League of Oregon Cities; Brian Knowles, Oregon Community College Association; Michelle Morrison, Oregon School Boards Association; Shauna Tobiasson, State of Oregon; Trudy Vidal, State of Oregon **PERS:** Kevin Olineck, Yvette Elledge-Rhodes Sam Paris, Heather Case, Richard Horsford, Rebecca Craven, Shawn Harper, Laurel Galego, El Rossman, Elli Probasco, Jake Winship, Matt Graves, Theresa Tabish, Alison Burman, Neil Jones, Stephanie Vaughan, Alex Gaub, Richard Thorpe, Jonathan Yost, Christina Hampton **Guests:** Rhonda Miller, Ian Peterson, Anita Katherine Gurule, Crystal De Mello, Carol Samuels, Cheryl Carder, Sharon May, Morgan Allen, Suzanne Linneen, Brian Knowles, Jeff White, Deborah Tremblay

NOTES

TOPIC	**Welcome**	Sam Paris
TIME: 10:01		
Sam Paris, PERS' Chief Operations Officer, welcomed the Employer Advisory Group (EAG) and went over the EAG meeting agenda.		

TOPIC	**Director's Office Update**	Kevin Olineck
TIME: 10:03 – 10:08		

Kevin Olineck, PERS' Director, provided a Director's Office update.

Upcoming

- The PERS Board meeting packet for the February 3, 2023, meeting has been posted online.
- PERS is anxiously awaiting the 2023-25 Governor's Recommended Budget. The current legislative session is up and running.
- There will be more information on earnings in the February board meeting.

2023-2028 Agency Strategic Plan

The board approved the 2023-2028 Strategic Plan on December 2, 2022.

The plan refined the agency's Core Values:

- Professional.
- Accurate.
- Judicious.
- Vigilant.

Within the 2023-2028 Strategic Plan, Modernization is the dominant theme.

Among the main tenets of the plan, the agency is seeking the budget to continue efforts to modernize our systems and online offerings for the sake of members, employers, and other stakeholders.

The six pillars ensure we have the right people to do the right jobs, engage members, ensure integrity and consistency in our data, provide the technology and support needed to do the work effectively, manage funds properly, and manage risk.

PERS is deliberate about working toward its future goals.

Anyone interested may view the 2023-2028 Agency Strategic Plan online.

TOPIC	**Legislative Update**	Heather Case
TIME: 10:08 – 10:15		

Heather Case, PERS' Senior Policy Advisor, gave a brief legislative update.

2023 Legislative Assembly

- Began January 17, 2023.

PERS has three agency bills:

- House Bill (HB) 2283 – PERS Modernization Fixes.
- HB 2284 – Divorce Fee Increase.
- HB 2285 Social Security Statute Updates.

Additionally, PERS is watching out for any other legislative concepts that may impact members and employers.

Heather described other legislative concepts that are possibly in the works:

- Allow OPSRP Police and Fire (P&F) to retire five years earlier.
- Remove caps for police overtime.
- Calculate final average salary (FAS) using five years instead of three.
- Provide assistance for low-income PERS retirees.
- Revise military service retirement credit purchase for OPSRP members.

Heather asked the group about any other bills.

Nancy Brewer, question: Pre-session chatter about HB 2296 – eliminate the SB 1049 Work After Retirement sunset. Nancy asked if that sunset would be extended or eliminated and withdrew the rest of her question.

Heather Case: HB 2296 is currently written to eliminate the Work After Retirement sunset.

Rhonda Miller, question: Pooling sick leave among a public employer?

Heather Case: There is a bill out there about this topic that has not gone anywhere yet.

TOPIC	**SB 1049 Program Update**	Yvette Elledge-Rhodes

TIME: 10:15 – 10:20

Yvette Elledge-Rhodes went over the SB 1049 Road Map and gave a general project update.

The agency wants to ensure the communication regarding SB 1049 is focused on the impact on members and employers.

On March 23, 2023, EPSA work packages 9.1 and 9.2 will deploy:

- 9.1 Employee Pension Stability Account Withdrawal.
- 9.2 Oregon Public Service Retirement Plan Withdrawal.

Future work packages are mainly focused on the agency's internal processes.

Program and project managers are rebaselining for all work packages by January 15, 2023. That should not impact employers.

PERS will continue to provide SB 1049 updates if they affect employers or members.

Nancy Brewer, comment: Nancy is okay with fewer SB 1049 updates and more updates focused on the overall modernization process.

TOPIC	**Communications Update**	Shawn Harper

TIME: 10:20 – 10:30

Shawn Harper, Employer Communications Specialist, presented updates on three communications activities:

Employer Reporting Guides
Communications has been working together with ESC to update the employer manuals and employer-focused webpages.

So far, 11 out of 26 guides have been published.

The series also includes eight quick reference guides and eight actuarial guides.

Website Updates

- Pension Obligation Bonds – new information added to side accounts webpage.
- Senate Bill 1049 – page simplified now that most program are implemented.
- Rate-Relief Programs – page includes all programs designed to help employers manage their rate, including most SB 1049 programs.
- Salary Limit – 2023 limit posted.
- Member Redirect – 2023 salary threshold published.

Carol Samuels, question: Asked a question about POB reporting information added to website.

Jake Winship: Actuarial and Communications have updated the webpage providing information about required reporting to be filed with Treasury Debt Management. Table displays annual and lifetime to date return by calendar year bond issued. 2021 is the most recent year updated. Preliminary return for 2022 is negative and below our assumptions, but it's better than it was looking earlier last year.

Carol Samuels: Expected that Treasury is not looking for cumulative return.

Jake Winship: Confirmed with Treasury that they are indeed looking for a cumulative return rather than an annualized cumulative return.

TOPIC	**Actuarial Update**	Jake Winship
TIME: 10:30 – 11:29		

Jake Winship, PERS' Actuarial Manager, gave an actuarial update.

Financial Modeling
Jake presented the Milliman financial modeling for early planning and what the future might look like.

Unfunded Liability
The steady rate of return shown in blue (6.9% consistent with assumptions) indicates that our retirement system will be fully funded in 2040. If our returns are better than expected (9.0% constant return), we could see a fully funded system by 2030.

Carol Samuels, question: Carol asked if was true that these analyses were run through September 2022 and if their performance was poor for that period.

Jake Winship: That is correct. Financial Modeling results are presented based on earnings through September 2022.

Kevin Olineck: Milliman used -4.41% as of September 30 for the Financial Modeling presentation. Preliminary year end return is -1.55%.

Biennial Change in Employer Collared Base Pension Rate

The steady state model using 6.9% annual return shows a decrease in base rates over the next several years. This reflects a shift in membership from Tier One and Tier Two to OPSRP.

The stochastic model shows a 50% chance in 2025 that the increase to base rates will be between 0% and 3.2%. The other half of that time, it will be outside of that band. This displays similar information to the constant return model but shows the uncertainty associated with projections.

Biennial Change in Collared Net Pension Rate

Displaying the change in **net** contribution rates shows an increase of about 6% for the 2027-29 biennium because of the number of side accounts maturing on 12/31/2027.

Nancy Brewer, question: Remembered long ago there was a belief there would be a move back to 9% rate returns – which may now be interpreted as a pipe dream. Is that true?

Jake Winship: Current base contribution rates reflect significant UAL amortization rates that will go on until 2040 or so. We are making contributions that should have been made in the 90s and early 2000s. If everything goes according to plan, we should be closer to that 9–10% when UAL has been fully amortized.

Kevin Olineck: Currently, OPSRP contribution rates are hovering at that 9–10%.

Nancy Brewer: Shared her concerns on the long-term viability of paying 25% of payroll.

Kevin Olineck: Right now, if PERS strictly had OPSRP folks, our contribution rate would be at that 10%.

Jake Winship: The UAL represents the gap between assets and liabilities. One challenge is that over the past several years the assumed earnings rate has decreased, increasing the present value of future benefits. The agency feels that it has reached the end of this process and the assumed earnings rate will not decrease further. PERS Board will review and confirm this year.

Nancy Brewer: Coming back to the Police and Fire bill concept discussed in the Legislative Update – Nancy assumed PERS is at the table discussing bills such as that and maybe pushing for the state to fund possible increases instead of employers.

Jake Winship: In terms of financial impact – PERS is working with Milliman on potential cost. Essentially, these are prospective costs that would not create an instantaneous unfunded liability. To a certain extent it's PERS' role to quantify the impacts to employers and members, but it is up to the legislature to make a final decision.

Kevin Olineck: It is PERS' role to quantify impact. OPSRP was set up to contain costs and it's been quite successful. OPSRP UAL is small compared to that of Tier One and Tier Two. By containing basic benefits, the decisions made 20 years ago to contain costs have been working.

Heather Case: It's PERS' job to let the legislature know of the impacts that bills might cause. Heather advised Nancy to work with her association to bring her voice to the table. PERS can only provide facts and data.

The P&F bill concept would not be entirely prospective, because there is a group that would become immediately eligible to retire. Nancy Brewer's association chair Scott Winkels is aware of this bill concept.

Nancy Brewer: Plans to monitor the bill.

Carol Samuels, question: About transition liability/surplus.

Jake Winship: Transition liability and surplus will also expire at the end of 2027. The impact to contribution rates will be muted because the liability and surplus were initially in balance. Over time this has changed, but the bulk of the impact is the side accounts.

Carol Samuels: Asked if there has been any further discussion on how to handle that impact.

Jake Winship: PERS is considering this situation and working to manage the impact to employers. The agency is pursuing two basic strategies. 1) If the employer has non-expiring side accounts, calculate the anticipated balance and deposit into another side account. 2) Calculate the expected unamortized balance as of 6/30/2027. This amount will provide a statement credit. This credit will reduce the amount of contributions required until the credit is fully used. There will be more communication coming in the next couple of years as solutions are explored.

Kevin Olineck: As the board goes through respective processes, Milliman will be working through the assumptions as well.

Carol Samuels: Asked the group to confirm her thought that employers who borrowed money with a maturity would have what she hoped would be a lower rate.

Jake Winship: Essentially employers would have a static rate through the biennium but would be able to stash funds needed for debt service from use of the statement credit between 7/1/2027 and 12/31/2027.

Carol Samuels: To the extent that it won't be a smooth rate credit when the bonds expire, PERS will need to make sure there is a lot of notice for employers. If folks need to reserve savings to offset payment, they need to know sooner rather than later.

Jake Winship: PERS is aware this will need to happen by the end of 2025, so the agency will continue to communicate well and often.

Nancy Brewer, comment: From an individual employers' perspective, the rates might see a bump – for an individual employer, that may not be at the time of their transition surplus.

Jake Winship: One of the things PERS will be aware of when Milliman performs the 2024 advisory valuation is that this will reflect the anticipated expiration of side accounts. PERS will have a communications plan to allow planning in advance of the expiration of side accounts to ensure no one is blindsided.

Actuarial Audit

PERS had a second audit of the actuarial valuation conducted by Gabriel, Roeder, Smith & Company. The audit considered the December 31, 2021, system-wide actuarial valuation.

The findings broadly affirmed PERS actuarial methods and assumptions.

The audit noted with approval the output smoothing (rate collar) methodology and particularly the change made to prevent decreasing rates unless certain funding targets are met.

They did have recommendations:

- Better address 18-month timing lag between measurement date and rate action.
- Consider the appropriateness of actuarial assumptions related to decrement timing, multiple service amounts, and Oregon residency assumptions.
- Provide more thorough documentation of models used in the actuarial valuation.
- Show better illustration of side accounts:
  - Add remaining period of amortization for each individual base.
  - Currently shows date established, outstanding balance, and the next scheduled payment.

Carol Samuel, question: Given timing mismatches generally between expiration of side accounts and valuation timing, would it be worth considering changing amortization periods of side accounts going forward to match the valuation timeline?

Jake Winship: The default is the calendar year-end. We can discuss the proposal put forth by Carol offline.

Valuation Edits

Modifications to 2022 valuation report:

- Based on recommendations from EAG and GRS audit.
- Reformatted 2021 State Agency (ER 1000) report will be shared.

Highlights:

- Principal Valuation Results and Range of Potential Tier One/Tier Two Contribution Rates will be moved from Executive Summary.
- Employer Contribution Rates will be expanded to show Multnomah Fire District #10 and impact of rate collar.
- Actual/advisory rates will be compared to the current actual rates.

Carol Samuel, question: Can we also show the most recent advisory rates?

Jake Winship: It may be a challenge to have all three, but there is ongoing discussion with Milliman. PERS will have more feedback on that in April.

EIF and SDULF Status

Employer Incentive Fund (EIF):

- Balance as of November 30, 2022: $2,985,693.
- Additional transfer anticipated on February 1, 2023: $2,117,115.
- **All waitlist matches must be received by March 31, 2023.**
- EIF will be adequate to complete all approved matches.

Please reach out to PERS Actuarial at Actuarial.Services@pers.oregon.gov if you have any questions or concerns.

School District Unfunded Liability Fund (SDULF):

- Balance as of November 30, 2022: $46,265,043.
- No transfers from interest on unclaimed property in 2023.
- Authorization for transfers into SDULF ends on January 2, 2027.
- Funds remain available until June 30, 2042.

Hopefully there will be resolution over the next few legislative sessions about continued funding. Solutions/ideas/questions, please reach out.

Carol Samuels, question: How is the SDULF being invested now?

Jake Winship: The funds are in a short-term funding account (Treasury account passively held). The short-term fund this year was positive, so that’s good news.

Carol Samuels: Is there any reason not to create a School District Pool side account?

Kevin Olineck: This is something that PERS is looking at and may be beneficial. PERS needs to talk to the legislature about 2027-29 side accounts, this may be a good time to use the funds. Over next couple of years the agency and lawmakers will have those discussions.

Additionally, Jake let the group know that MaryMichelle Sosne has left the agency for another position in state government. There will be a statewide recruitment over the next few weeks to fill her position at PERS. The agency would like to have someone fill the role who has knowledge of and past experience with the PERS system.

Please reach out to PERS Actuarial for more information.

TOPIC	**Additional Items**	Sam Paris
TIME: 11:29 – 11:34		

Sam Paris introduced the remaining additional items.

Governmental Accounting Standards Board (GASB) Schedules, Matt Graves:

- GASB 68 Defined Benefit Plan and GASB 75 Other Postemployment Benefit Plans (OPEB) employer reporting for June 30, 2022, measurement date.
- PERS GASB webpage updated.
- Please send questions to PERS.GASB.Questions@pers.oregon.gov.

Currently available schedules

GASB 68 Schedules:

- Currently available for June 30, 2022.
  - Cash contributions subsequent to June 30, 2021, measurement date.
  - Transition liability fiscal year 2022 amortization.
- Available in early March for the June 30, 2022, measurement date:
  - Audit report – from PERS auditors.
  - Letter from Actuary – from Milliman.
  - Exhibits from Actuary – system-wide exhibits A through I.
  - Individual employer statements.

GASB 75 Schedules:

- Available in early March for the June 30, 2022, measurement date:
  - Audit Reports (RHIA and RHIPA) – from PERS auditors.
  - Letter from Actuary – from Milliman.
  - Exhibits from Actuary – system-wide exhibits A through I, RHIA and RHIPA.
  - RHIA individual employer statements.

ESC Support Reminder, Laurel Galego:

Year-end Records Reconciliation

Employer Service Center is working to help employers submit records and pay invoices by year end.

Why is this important?

- If 2022 contributions invoiced through March 3, 2023, are paid when due, employees' PERS accounts will be credited with 2022 earnings (if applicable) from the PERS Trust.
- If contributions are not paid when due, employers will be invoiced for 2022 earnings (aka prior-year earnings).
- When employers are not current on reporting or clearing suspended records, it hurts their teammates. Please support your teammates in getting their reports done.

ESC is there to support employers.

Please reach ESC by:

- Email: ESC representatives are available to answer emailed questions Monday to Friday from 8 a.m. to 5 p.m. Email your assigned representative directly or the Employer Support inbox. Most emails are answered within 24 hours.
- Phone: ESC representatives are available to assist by phone Monday to Friday. Call your assigned representative's direct phone line between 8:00 a.m. to 4:00 p.m. or the Employer Call Center line between 8:30 a.m. to 12:00 p.m. at 888-320-7377.

TOPIC	**Open Discussion**	Sam Paris
TIME: 11:34 – 11:38		

With the remaining time, Sam opened the meeting to EAG members for questions and discussion.

Rhonda Miller, question: A while back it was stated at an EAG meeting that employer reporting penalties might be put into place – is there a timeline on that?

Sam Paris: PERS is looking to make sure the agency is up to date on Oregon Administrative Rules (OAR) and ensuring the penalty system is working correctly on the back end. PERS is still working internally on how that process might work and creating an escalation process. Sam will work with Brandon Armatas on an update for the April EAG meeting.

Cheryl Carder, question: Is there any update on the employer's ability to export their statements from the portal? Employers are hoping for an Excel formatted export capability.

Elli Probasco: PERS is still actively working on that feature and hopes to be able to share good news on it in the next EAG meeting.

Laurel Galego: For the export, downloading, and printing, the agency is looking at addressing the feedback from employers.

Next meeting facilitator: Sam Paris
Next meeting date and time: April 21, 2023