Legislative Fiscal Office

Ken Rocco
Legislative Fiscal Officer

Larry Niswender
Deputy Legislative Fiscal Officer

900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301
503-986-1828

Budget Information Brief / 2004-8

Preliminary 2005-07 PERS Employer Contribution Rates

During the 2003 session, the Legislature passed a number of reforms that resulted in reductions to employer contribution rates for the Public Employees Retirement System (PERS). While legal challenges have been filed against the reforms, the outcomes are not yet known. In the meantime, state agencies are in the process of developing their 2005-07 agency request budgets and some questions have been asked about the factors causing a projected increase in state employer contribution rates from the rates used in the current biennium's budget.

What caused the state's projected employer contribution rate for 2005-07 to increase almost 50% (from 10.71% to 15.52% of covered payroll)?
There are two principal causes. The first is that investment losses that were not included in calculation of the 2003-05 rate had to be recognized in the rate for 2005-07; this caused an increase of 3.71% of covered payroll. The second is that the Public Employees Retirement Board set aside approximately $1 billion in two statutory reserve funds. The moneys set aside in these reserve funds, by law, are for unforeseen contingencies and, therefore, must be excluded from assets available to pay PERS benefits. This resulted in an increase of 1.26% of covered payroll. The 2005-07 rate of 15.52% is a preliminary rate which will be finalized before the end of the year by the PERS actuary and reflected in agency 2005-07 legislatively adopted budgets. (A detailed reconciliation between the two rates is included on the following page.)

Did the reform legislation really save the state money?
Yes. Combined, the 2003 reform actions will produce savings of approximately $300 million General Fund in 2003-05. Had there been no reform legislation in 2003, the 2003-05 rate would have been 16.47% versus 10.71%, and the estimated rate for 2005-07 would be 21.38% instead of 15.52%

Didn't the state save money from issuing Pension Obligation Bonds to pay down the state's unfunded actuarial liability?
Yes. Based on the issuance of the bonds, PERS reduced the state's employer contribution rate. Savings from the reduced rates will be greater than the required debt service costs based on the amount borrowed. The lower contribution rates are expected to save the state $34 million General Fund in 2003-05 and up to $1 billion over the next 24 years.

The state's 2005-07 employer contribution rate of 15.52% reflects a reduction of 6.60% of covered payroll because the unfunded liability has been paid down. For 2005-07, state agencies have been instructed to budget for their share of the 2005-07 debt service payment on the bonds at 6.25% of their covered payroll (for a net savings of 0.35% of covered payroll). The percentage rate will be adjusted during the 2005 session when the actual budgeted payroll will be determined by the Legislature.

What effect will court actions have on the rate?
This is unknown. Once the court actions are known, the Public Employees Retirement Board must work with its actuary to determine the impact on employer contribution rates.

Comparison of State PERS' Contribution Rates; 2003-05 vs. 2005-07		
	2003-05	**2005-07**
PERS 2003-05 employer contribution rate (see Note 1)	4.71%	4.71%
State cost of employer pick-up of employee contribution	6.00%	6.00%
Causes of changes to employer contribution rate for 2005-07		
Cost of investment losses not included in 2003-05 rate (see Note 2)		3.71%
Cost of Lipscomb Settlement (see Note 3)		0.21%
Effect of excluding certain reserves from valuation (see Note 4)		1.26%
Weighted effect of OPSRP employees coming on board (see Note 1)		(0.37%)
State employer contribution rates	10.71%	15.52%

Notes

1) The 2003-05 employer contribution rate takes into consideration the state's $2 billion payment on its unfunded liability (savings of 6.6%), but does not take into consideration new employees that would be under OPSRP (the new plan established in 2003 by HB 2020) because of lack of census data. Agency budgets were reduced by 0.22% of payroll based on estimated savings relating to new members. As a result, state agency budgets reflect 10.49% for PERS rather than 10.71%.

2) When the 2003-05 rate was established, it was known that it would increase for 2005-07 because the entire investment losses from years 2002 and 2001 were not be included in the 2003-05 rate. Investment earnings in 2003 were not yet known to make an accurate projection of the actual effect of net investment losses on future employer rates.

3) When the 2003-05 rate was set, the effect of the Lipscomb decision was not included because it was under appeal. In February 2004, the PERS Board reached a settlement agreement with the plaintiff employers. The cost to employers from the settlement is due to the fact that the agreement required $205 million be transferred from employer reserves to the Contingency Reserve. This results in increased employer contribution rates for 2005-07. (See also Note 4.)

4) Approximately $1 billion of calendar 2003 earnings, set aside by the Board in the Contingency Reserve and Capital Preservation Reserve, is to be for unforeseen contingencies and is excluded from assets available to finance PERS benefits. This results in increased employer contribution rates.

For additional information, contact:
Dallas Weyand, 503-986-1834