LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

BACKGROUND BRIEF

Membership in the Oregon Public Employees Retirement System (PERS) is provided to individuals who work a specified period of time for a public employer. Both employees and employers make contributions to PERS based on either a statutory contribution rate or as directed by the Public Employees Retirement Board. The specific type and amount of benefits received by a retired member of PERS is determined by the employee's date of employment.

MEMBERSHIP IN PERS

Membership in the Oregon Public Employees Retirement System (PERS) is open to an individual who works in a qualifying position with a public employer, which includes "the state, one of its agencies or any city, county, municipal or public corporation, political subdivision of the state," public school districts, and educational service districts.[1]

A qualifying position is any job in which an individual performs at least 600 hours of service in a calendar year for a public employer.[2] An employee of a participating public employer automatically becomes a member of PERS after completing six months of service.[3]

Members are categorized as:

- Active members: currently employed in a qualifying position following the required six-month period;
- Inactive members: not currently employed in a qualifying position, but not retired, and whose membership has not been terminated; or
- Retired members.

TABLE OF CONTENTS

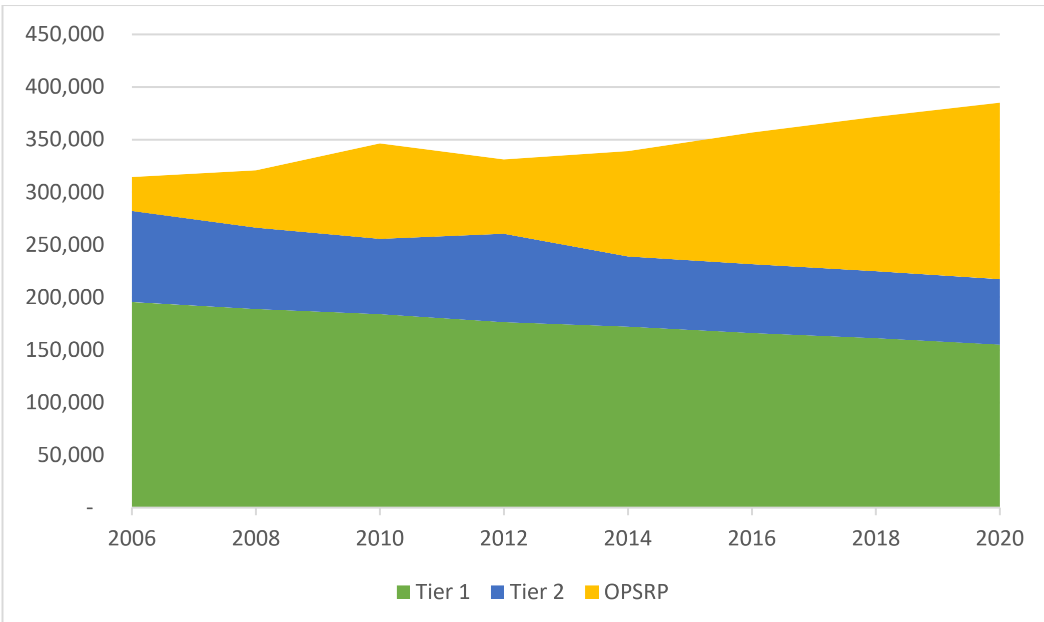
[1] ORS 238.005 (2021) and OAR 459-009-0020. Not all public employers must participate in PERS. A city with a population of at least 100,000 may establish a retirement system by ordinance (ORS 237.350 (2021)). If a public employer of police officers or firefighters provides retirement benefits that are equal to or better than the retirement benefits that would be provided under PERS, the public employer may qualify for an exemption from PERS (ORS 237.620 (2021)). The Harney County Health District may provide an alternative retirement program to its employees in addition to PERS (ORS 237.750 (2021)).
[2] ORS 238.005 (2021).
[3] ORS 238.015 (2021).

Membership in PERS ends when an individual dies, terminates the membership, or forfeits the membership.

RETIREMENT BENEFITS

An employee's date of employment determines the employee's membership classification and the specific nature of benefits available. Within each membership classification, employees are categorized as either "general service" or "police officer and firefighter" (P&F).[4] Figure 1 shows the size of PERS membership by classification.

Figure 1: PERS Membership 2006 to 2020



Source: Legislative Policy and Research Office
Data: PERS

Tier One Classification

Tier One members were hired before January 1, 1996.[5] Retirement age for Tier One general service members is 58 years of age or 30 years of service. For P&F, the retirement age is 55 or, if the member is 50, 25 years of service. General service members may qualify for early retirement at age 55 and P&F may qualify at age 50.

A Tier One member has a "regular account" into which the member's six percent contribution (discussed below) was placed, along with interest earnings on those contributions. Tier One members are guaranteed a minimum rate of return on their regular accounts. Starting in 1967, Tier One members could also add an additional variable account that did not guarantee a minimum rate of return, but would be subject

[4] ORS 238.005 (2021). Police officers include 23 categories of individuals with law enforcement responsibilities employed by state or local government.
[5] Benefit information for Tier One members can be located in ORS chapter 238.

to the fluctuations of the markets. In 2003, the Legislative Assembly established the Individual Account Program (IAP) and directed that the six percent contribution by Tier One members be placed into their IAP account instead of their regular account. Like the variable accounts, IAP accounts do not have a guaranteed rate of return.

Upon retirement, Tier One members receive a "service retirement allowance," which is the payout of contributions made into PERS by both the employee and the employer. The amount of the member's service retirement allowance is calculated using one of three methods: Formula Plus Annuity, Full Formula, or Money Match. The PERS Board uses the formula that yields the highest amount for a member; however, the Legislative Assembly intended the Full Formula method to be the primary formula and the one most commonly used.[6]

The Formula Plus Annuity method, which is available only to those members who contributed to PERS prior to August 21, 1981, calculates the allowance by using one percent of the member's final average salary (1.35 percent for P&F) multiplied by the member's years of service.[7] This amount is then added to the amount the member will receive from the member's account to determine the amount of the retirement allowance.

The Full Formula method calculates the allowance by multiplying the member's final average monthly salary by the member's years of service, and then multiplying that amount by 1.67 percent (2 percent for P&F).

The Money Match method calculates the estimated amount in the member's account balance at retirement and then matches that amount with an employer-paid pension, resulting in an amount that is twice the member's account balance at retirement.

In 1991, the Legislative Assembly removed the income tax exemption on retirement benefits for state employees that had been in place since PERS began. The Oregon Supreme Court determined that this change violated the contract between the state and retired members. Therefore, to offset the impact of income tax levied against Tier One members' benefits earned prior to 1991, those members may receive a tax remedy. The amount of the remedy is based on the member's specific occupation and service time.

Tier Two Classification

Tier Two members were hired between January 1, 1996 and August 28, 2003.[8] The retirement age for Tier Two general service members is 60 years of age or 30 years of service. The retirement age for P&F Tier Two members is the same as for P&F Tier One members.

---

[6] *Moro v. State*, 357 Or. 167, 179 (2015).
[7] The final average salary is the greater of either the average of the three highest-earning calendar years or one-third of the total salary in the last 36 months prior to retirement. The Tier One member's final average salary calculation includes any lump-sum payments for unused vacation time and unused sick leave.
[8] Benefit information for Tier Two members can be located in ORS chapter 238.

Like Tier One members, Tier Two members receive a service retirement allowance along with a payout from their IAP account. Unlike Tier One members, Tier Two members do not have a guaranteed rate of return on their regular accounts. Calculation of a Tier Two member's service retirement allowance is made using either the Money Match or the Full Formula method.[9]

Oregon Public Service Retirement Plan Classification

In 2003, when the Legislative Assembly created the IAP, it also created a new tier of membership classification: the Oregon Public Service Retirement Plan (OPSRP).[10] Members of the OPSRP were hired after August 28, 2003. These members do not receive a service retirement allowance; however, they do receive both an annuity (the IAP) and a pension, which is calculated with a different formula than Tier One and Tier Two. The OPSRP formula calculates a general service member's pension by multiplying 1.5 percent of the member's final average salary (1.8 percent for P&F) by the number of years of membership.[11]

Cost-of-Living Adjustment

Members in all three tiers of membership classification receive a cost-of-living adjustment (COLA) to their pension to account for changes in the cost of living. The COLA does not apply to the IAP annuity for any membership classification.

The amount of the COLA that is applied to benefits is based on the date of the service time that earned the benefit. For benefits earned before October 1, 2013, the COLA has a maximum of two percent, tied to the Consumer Price Index for Portland. For benefits earned after October 1, 2013, the COLA is set at 1.25 percent for the first $60,000 of annual benefit and .15 percent of the annual benefit over $60,000.

CONTRIBUTIONS INTO PERS

PERS is a defined benefit plan with certain components that are defined contribution plans.[12] The administrator for PERS is the Public Employees Retirement Board (Board). The Board also serves as the trustee of the Public Employees Retirement Fund (Fund), which is used to pay retirement benefits. As administrator, the Board must project the

[9] Unlike Tier One members, the calculation of Tier Two members' final average salary does not include any lump-sum payments for unused vacation time.
[10] While OPSRP has been referred to colloquially as "Tier Three," only Tier One and Tier Two are defined specifically by those names in Oregon Administrative Rules. Benefit information for OPSRP members can be located in ORS chapter 238A.
[11] The final average salary for the OPSRP does not include unused vacation time or unused sick time.
[12] Under the federal Internal Revenue Code, a "defined contribution plan" is a plan providing for an individual account and benefits for a participant based solely on the amount contributed to that account. This type of plan defines how much is to be contributed to the account but does not promise any specified retirement benefit to be received. A "defined benefit plan," however, first establishes the amount of retirement benefit to be received, and then a plan administrator attempts to set contribution rates that will pay for those benefits. To set the proper contribution rate, an administrator must make several projections about future events such as the compensation level and life expectancy of members as well as future rates of return on investments. The administrator may need to revise those projections to adjust for over- and underestimated contribution rates (*Moro v. State*, 357 Or. 167, 176 (2015)).

value of benefits for each member to set contribution rates that will ensure the Fund has sufficient assets to pay those benefits. To assist its projection, the Board must have an actuary create a report that evaluates PERS's current and prospective financial condition at least once every two years.[13] Contributions to PERS come from both employees and employers.

Employee Contributions

Employees contribute six percent of their salary into PERS. Currently, employee contributions are placed into the Individual Account Program (IAP), which is a separate account that funds an annuity. The funds are invested, and the employee is not guaranteed a rate of return on that investment.[14] Because the employee contribution rate is set in statute, the Board may only adjust the employer's contribution rate.[15]

Employer Contributions

Employer contribution rates have two components: the "normal cost" and the "unfunded actuarial liability" (UAL). An employer's normal cost is based on the PERS Board's estimate of the amount needed to pay benefits to the employer's current employees in the future.[16] An employer's UAL, however, results when the employer's normal cost is not enough to cover the cost of benefits owed.

The Board bases its projection of benefits owed on several factors, including employee demographics, compensation levels, inflation, number of retirements, and amount earned by a return on investment of the contribution. As with other state investment funds, the Oregon Investment Council (OIC) invests contributions with the goal of making the funds "as productive as possible."[17] For much of PERS' history, the return on these investments provided most of the funding for current benefits to be paid.[18] If the return on these investments is less than was projected by the Board, however, the difference between the actual and projected earnings will increase the employer's UAL.

To provide more predictable and stable employer contribution rates, and to decrease the impact on employers if a rate were to be dramatically increased or decreased as a result of an unexpected rate of return on investments, the PERS Board has instituted a "rate collar" policy, setting a limit within which employer contribution rates may be increased or decreased.

Under the policy, an employer's contribution rate may not be changed by more than the greater of a specified percentage of the employer's payroll or a specified percentage of the employer's current contribution rate. The Board reevaluates whether to apply a rate

---

[13] ORS 238.605 (2021).
[14] By defining the amount of the contribution, but not the amount of future benefit to be received, the IAP is a defined contribution component of the employee's PERS benefit.
[15] ORS 238.200 (2021) and ORS 238A.330 (2021).
[16] *Strunk v. Public Employees Retirement Bd.*, 338 Or. 145, 160 (2005).
[17] ORS 293.721 (2021).
[18] *Moro v. State*, 357 Or. 167, 178 (2015).

collar at each rate-setting valuation every two years. For the most recent rate-setting valuation, effective July 2021, the Board did not apply a rate collar.[19]

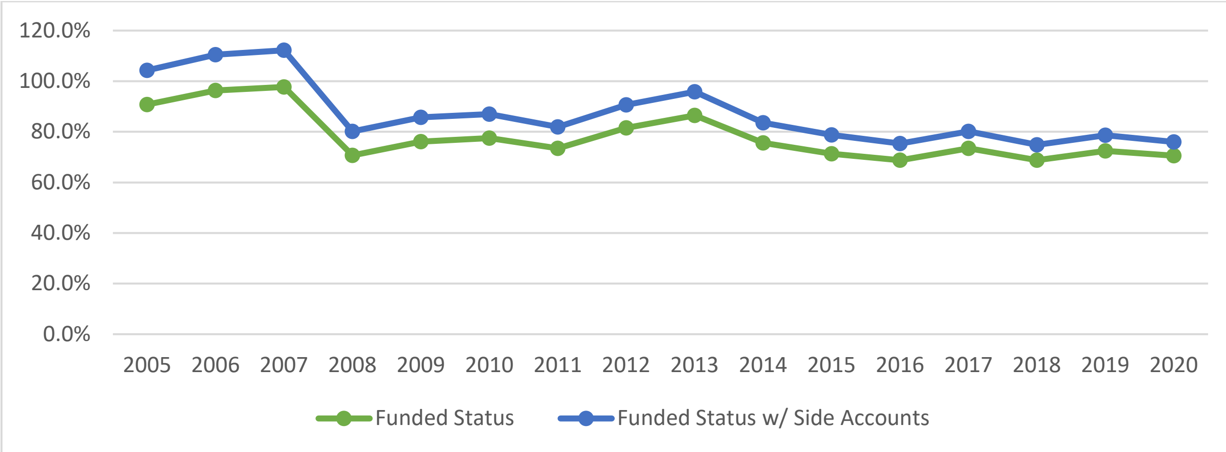
Rate pools are an additional means by which PERS is designed to guard against the potential volatility of employer contribution rates. For purposes of specific membership classifications (discussed below), the law groups together certain employers throughout the state and treats them as a single employer to calculate employer contributions.

For Tier One and Tier Two benefits, all school districts are grouped into the School District Pool.[20] The state and all community college districts are grouped into the State and Local Government Rate Pool.[21] Other employers may elect to be included within the State and Local Government Rate Pool.[22] For the Oregon Public Service Retirement Plan (OPSRP), all public employers are grouped together for the pension program, but not for the Individual Account Program.[23]

Employers may make a lump-sum payment against any current or future UAL.[24] The PERS Board takes these payments into consideration when calculating the employer's contribution rate. For each employer who makes a lump-sum payment, the Board establishes a separate account within the PERS Fund and credits any interest or other income received from investment of the funds to the account.[25] Amounts in the account offset the employer's contributions to PERS. For any lump-sum payment of at least $10 million, the employer may choose a period of 10, 16, or 20 years for which the payment may be used to offset the employer's UAL.[26] Figure 2 shows the funded status of PERS pension accounts over the past 15 years.

[19] For a more complete discussion of the Board's rate collar policy, including the history and reasoning behind its adoption, a discussion of the policy's methodology, and an overview of alternative methodologies, see *2013-15 PERS Rate Collar*, Budget Information Brief/2014-2, Legislative Fiscal Office (Jan. 2014).
[20] ORS 238.227 (2021).
[21] *Id.*
[22] *Id.*
[23] ORS 238A.220 (2021).
[24] ORS 238.225(8) (2021) and OAR 459-009-0084.
[25] ORS 238.229 (2021).
[26] ORS 238.232 (2021).

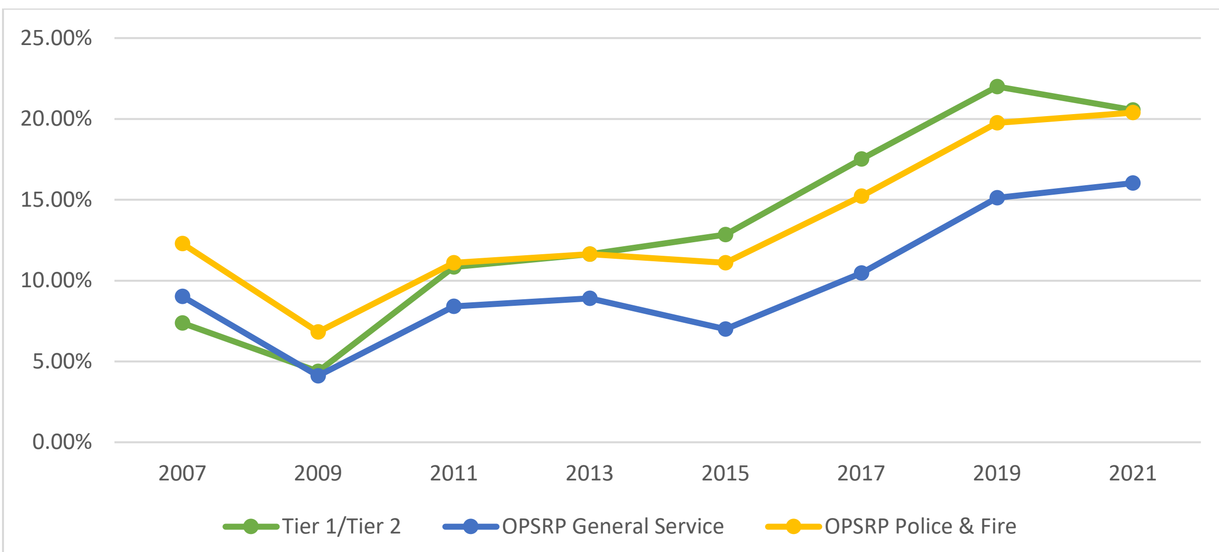
Figure 2: Funded Status of PERS Pension Accounts 2005 to 2020



Source: Legislative Policy and Research Office
Data: PERS
Note: Side accounts are established for employers who make a lump-sum payment in excess of the required employer contribution. Side accounts are treated as prepaid contributions and are included in valuation assets for financial reporting purposes such as the reporting of funded status.

Figure 3 shows the net employer contribution rates from 2007 to 2021 by Tier One, Tier Two, and OPSRP.

Figure 3: Net Employer Contribution Rates by Tier 2007 to 2021 (Normal Cost + UAL – Adjustment and Redirect)



Source: Legislative Policy and Research Office
Data: PERS
Note: Percentages are of the employer's current payroll.

SENATE BILL 1049 (2019)

In 2019, the Legislative Assembly passed Senate Bill 1049, which changed several provisions within PERS.

Under the measure, if PERS funded status is less than 90 percent funded and an employee earns more than $2,500 per month ($30,000 per year), a portion of the employee's six percent contribution is redirected from the employee's IAP account into the Employee Pension Stability Account. For Tier One and Tier Two members, 2.5 percent of an employee's salary is redirected, while for OPSRP members, .75 percent of the employee's salary is redirected. Additionally, any amount of a member's salary above $195,000 (indexed to inflation) is not included in the calculation of the member's final average salary.

For the 2021-2023 biennium, employer contribution rates were scheduled to increase from the 2019-2021 biennium rates by 5.76 percent (from 18.31 percent to 24.07 percent). Senate Bill 1049 (2019) reduced the scheduled increase by 5.43 percent for an estimated savings to employers of between $1.2 and $1.8 billion.

Among other changes, the measure also provided members in the IAP a choice between various investment options to which their employee contribution may be directed. Previously, IAP accounts were invested only in age-based target-date funds.

STAFF CONTACT

Wenzel J. Cummings, LPRO Analyst
Legislative Policy and Research Office
(503) 986-1663
wenzel.cummings@oregonlegislature.gov

Please note that the Legislative Policy and Research Office provides centralized, nonpartisan research and issue analysis for Oregon's legislative branch. The Legislative Policy and Research Office does not provide legal advice. Background Briefs contain general information that is current as of the date of publication. Subsequent action by the legislative, executive, or judicial branches may affect accuracy.