

OREGON UPDATE

PERS Board May Change Earnings Crediting

Additional Costs for Employers a Possible Outcome

The Public Employees Retirement Board (PERB) took steps on Friday, March 22, to change the way that earnings are credited to employees and employers. If fully adopted, this new crediting system would prioritize earnings crediting decisions based on the Board's interpretation of statute. The rationale for considering the change appears to be related to statutory interpretations between past practices, recent thinking and legal opinions, according to Jim Voytko, Executive Director of the Public Employees Retirement System (PERS).

In describing the new crediting system to the Board, Mr. Voytko said that creating the prioritized or "sequential" earnings crediting system "may affect the relative growth rates of employer versus employee pre-retirement accounts and may shift the burden of recouping annual plan deficits away from Tier 1 members toward employers."

Losses to PERS investments in 2001 are estimated at \$2.7 billion. These losses are the largest in the System's history. Despite these

losses, Tier 1 employees will be guaranteed an eight percent increase in their accounts.

On March 22nd, the Board took action to liquidate its \$2.5 billion gain/loss reserve to pay for the eight percent guarantee to Tier 1 employees. To cover the shortfall stemming from investment losses, the Board created a new reserve fund to which that deficit will be credited. If PERS investments produce returns of greater than eight percent, all the earnings above eight percent go first to eliminate the deficit. Only then will additional earnings be credited to other accounts.

The Board voted to make these changes despite Mr. Voytko's testimony that the consequences of changing the crediting policies were not fully known, and that neither stakeholders nor the actuary for PERS had time to review the proposal before it was brought to the Board.

"To be blunt, we cannot say with even modest conviction what the systemic consequences of adopting the sequential method might prove

to be for the PERS system," said Mr. Voytko. In addition, he said that preliminary models of the new crediting system could hypothetically result in "employer ending balances in the pre-retirement portion of the system fall(ing) substantially behind the growth in employee balances. Is all this good or bad? We don't know but we think we should investigate." Additional analysis of the new system will be available for the Board at a subsequent meeting.

In other action on March 22nd, the PERS Board delayed a vote on updating its 24 year-old life expectancy tables. A sub-committee of the Board had recommended a "segmented" approach which would require perpetual use of the old mortality tables, despite testimony previously and at this meeting from employers favoring a five-year "wear-away" approach, which would fully implement the new tables over a five-year period. Action on this item was delayed until a subsequent meeting.

Questions? Call Michelle Deister at the League office, (503) 588-6550 or 1-800-452-0338.