CITY OF WILSONVILLE
BUDGET COMMITTEE MEETING
AGENDA

February 15, 2018
6:00 PM

CITY HALL
29799 SW TOWN CENTER LP E
WILSONVILLE, OREGON

Tim Knapp, Mayor	William Amadon, Committee Member
Scott Starr, Council President	Paul Bunn, Committee Member
Kristin Akervall, Councilor	Andrew Karr, Committee Member
Charlotte Lehan, Councilor	Arthur Park, Committee Member
Susie Stevens, Councilor	Sam Scull, Committee Member

I. CALL TO ORDER
- A. Roll call
- B. Pledge of allegiance

II. CITIZEN COMMUNICATIONS

III. CITY MANAGER INTRODUCTION

IV. OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) OVERVIEW

V. ADJOURN

PERS 101

Presentation to City of Wilsonville
February 15, 2018

PiperJaffray®

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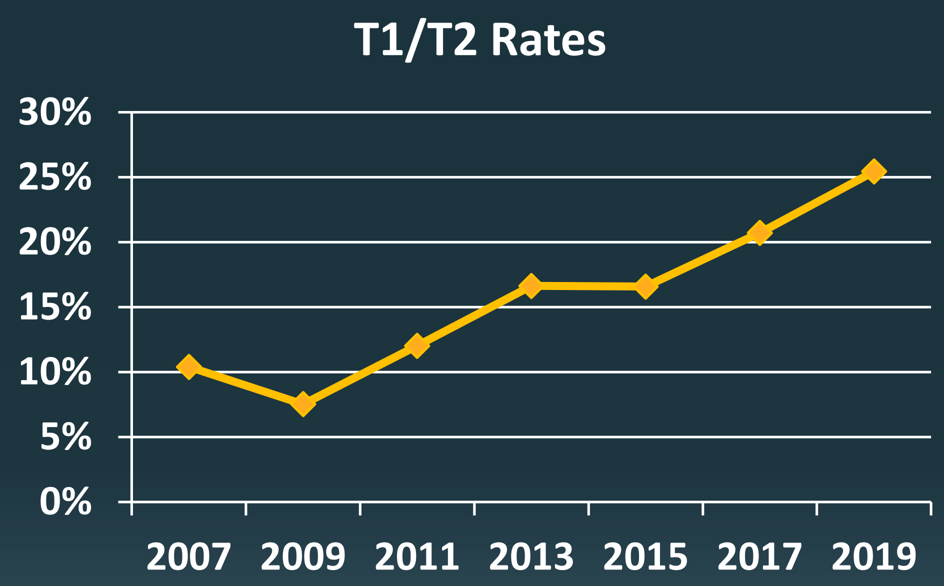
The Short Version: Costs are Rising

City of Wilsonville-Tier 1/ Tier 2 Rates

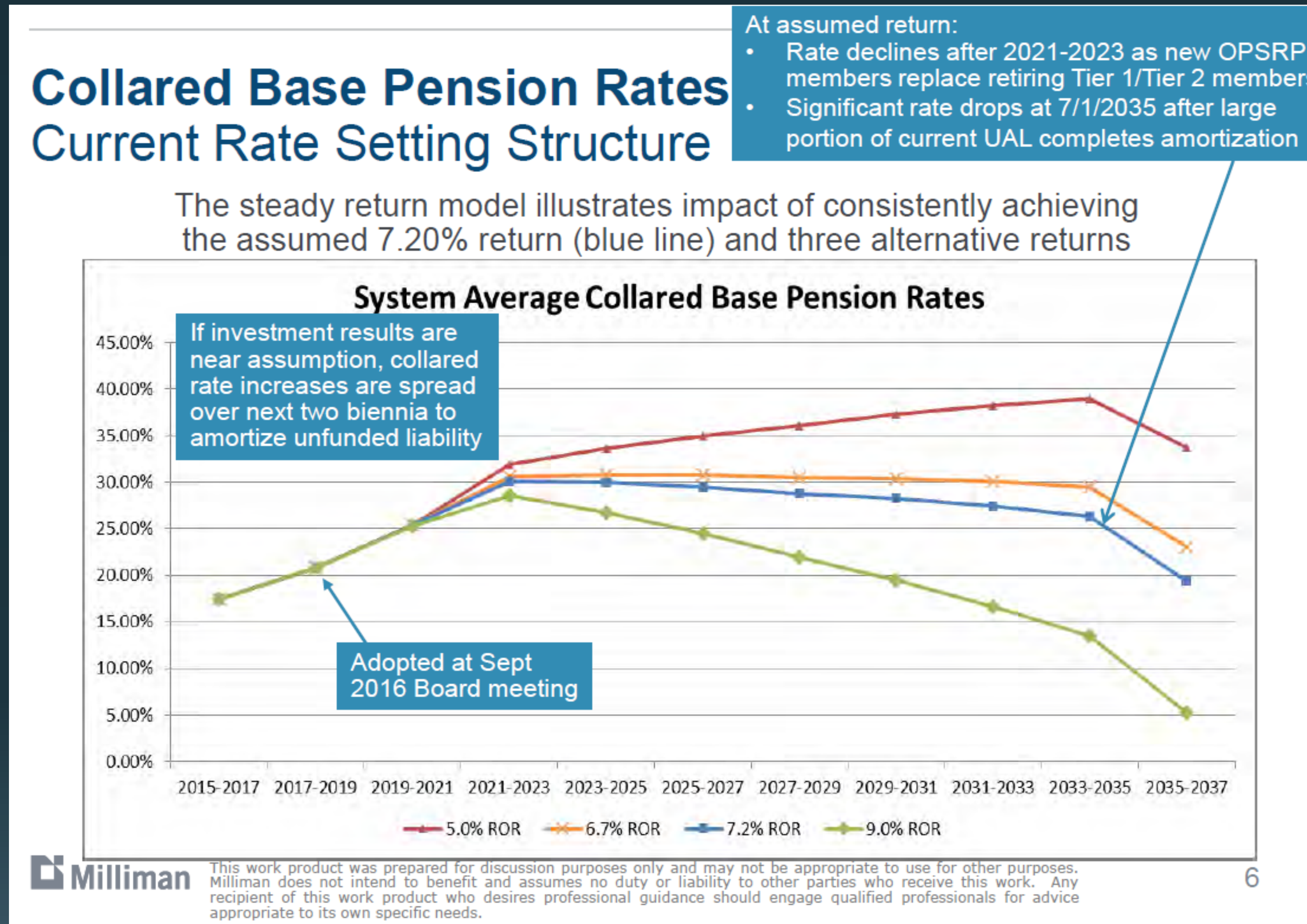
Effective Date	T1/T2
7/1/2007	10.40%
7/1/2009	7.53%
7/1/2011	12.03%
7/1/2013	16.64%
7/1/2015	16.59%
7/1/2017	20.73%
7/1/2019(1)	25.44%

(1) Advisory rates



And even strong returns won't help much…

- Even with 9% returns (green line), average rates will increase for the next 2 biennia before declining.
- At 7.2% (blue line), average rates increase by approximately 5% in each of the next two biennia. Rates do not decline below 25% until 2035.




OMG!

How did we get here: PERS basics

- Retirement benefits for most Oregon public employees administered through "Oregon Public Employees' Retirement System" (or "PERS").
- PERS has 5 board members appointed by governor.
- PERS maintains three separate retirement programs:
  - Tier 1: employees hired prior to 1996
  - Tier 2: employees hired between 1996 and 2003
  - OPSRP: employees hired after August 29, 2003

Benefit Package - Tier 1

Tier 1 employees are provided a hybrid of “defined benefit” and “defined contribution” pension plans.

- **Employers pay a ‘payroll rate’ set by PERS based upon amount projected to meet pension obligation.**
- **Employees are required to contribute 6% of salary (can be “picked up” by employers).**
- **Prior to 2003, employee share was contributed to PERS Fund.**

Tier 1 (cont'd)

- **Since 2003, employee share goes to Individual Account Program ("IAP"), which is a 401(k)-like account.**
- **T1 members are guaranteed "assumed earnings rate" (historically 8.00%, now 7.20%) on funds.**
- **Prior to 2003, actual rate paid was often substantially higher.**

Tier 1 (cont'd)

Final benefit determined as highest payout under:

1. **Full formula:**

Highest 3 years average salary x 1.67% x years of service. Benefit is designed to provide 50% of final average salary (FAS) for a 30 year employee.

2. **"Money match":**

Annuity calculated by matching amount in employee's account. Accounts guaranteed minimum of assumed rate (now 7.50%) annually. In recent years, a declining number of employees retire under this plan.

Tier 2 and OPSRP

Tier 2

- Access to full formula and money match. Most are expected to retire under full formula.
- No 7.50% guarantee.

OPSRP

- Full formula at lower percent (1.5%) of FAS, higher age for eligibility. Equates to 45% of pay at 30 years.
- 6% employee contribution deposited in IAP like 401(k).
- No money match.

Actuarial Process

- Employer amounts due are calculated as % rate applied against 'covered' payroll.
- PERS Actuary (Milliman) completes valuation annually:
  - Odd year valuations - set rates
  - Even year valuations - advisory only
- Valuations are released year after valuation period. Rate changes take effect 18 months after valuation date.
- By end of biennium rates are based on data 3 1/2 years old.
- 2015 valuation was released in September 2016 and set rates for 2017-19 biennium.
- 2016 valuation was released in late 2017, provides advisory rates for the 2019-21 biennium.

Actuarial Process (cont'd)

Payroll rates are divided into three components:

- **Normal cost – current, ongoing costs**
- **UAL – shortfall**
- **Health care – post retirement - Very small portion**

Those entities that have issued bonds or made an extra cash payment may have a 'side account' that provides a 'rate credit' against the payroll rate.

Rate Collar

- PERS uses rate ‘collar’ to smooth rate changes from one period to next.
- Rates are first calculated on ‘uncollared’ basis, which is theoretical rate necessary to fully fund system.
- Collar is applied if uncollared rate would cause rates to increase (or decrease) more than a set amount.
- Collar is no more than the greater of 3 percentage points or 20% of the current contribution rate.
  - Increases if funded percentage drops below 70%
- Any rate increases not made because of collar are deferred to future rate setting periods.

Actuarial Pools

Employers within PERS are grouped in one of four ways:

1. School Pool – K-12 is aggregated in single pool for actuarial modeling and payroll rate calculations.
2. State and Local Government Rate Pool (SLGRP) – All state agencies, community colleges and most local governments are pooled.
3. Independent – Some local governments are valued independently of all other jurisdictions.
4. Judiciary – state judiciary.

COLAs

- Historically, employee benefits adjusted by CPI, with a maximum of 2% per year.
- When CPI exceeds 2%, excess "banked" to offset future sub-2% CPI years. Given past inflation, norm has been 2% annual increase.
- Constraining COLAs was main focus of 2013 legislative actions, which were largely overturned by Supreme Court.

2003

In 2003, UAL had grown to $17 billion. Causes included:

- ✓ Money Match – hot 1990s stock market caused most T1s to shift to money match, counter to assumptions.
- ✓ Antiquated mortality tables.
- ✓ Inadequate reserves. T1s paid more than 8% assumed rate (20% in 1999), causing underfunded reserves.
- ✓ Poor investment returns in 2000 (0.54%), 2001 (-6.96%) and 2002 (-8.93%).

2003 Legislative Changes

2003 Legislature approved changes to reduce UAL:

- Limited crediting for T1 to assumed rate.
- Shifted 6% employee contributions to IAP, significantly limiting money match.
- Modernized mortality tables.
- Created 5-member board with members allowed 1 seat.
- Created OPSRP: “hybrid” with DB and DC elements.

Despite litigation, most provisions were upheld.

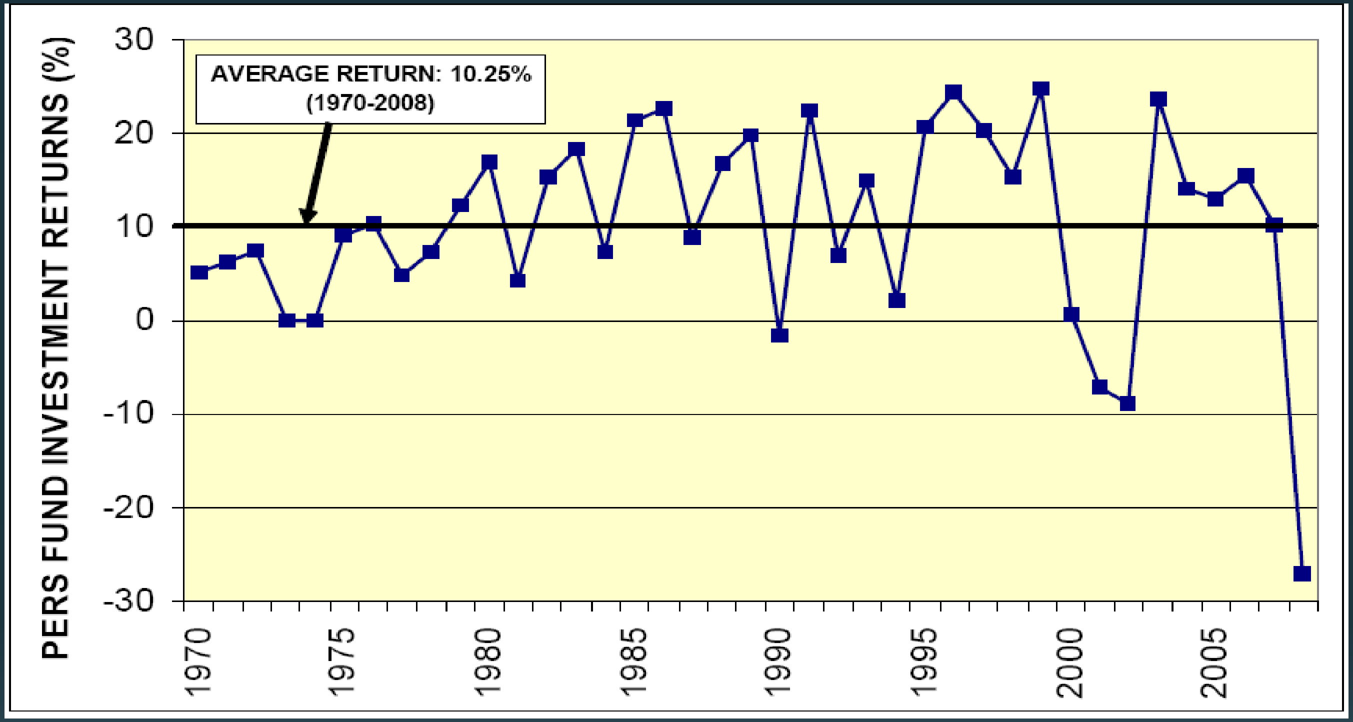
By 2007

Legislative changes and strong returns resulted in a system-wide funded ratio (including bond funded Side Accounts) of 112%.

Payroll rates averaged 12.4% of salary.

Then came 2008…

Investments went into freefall, losing 27% of its value.

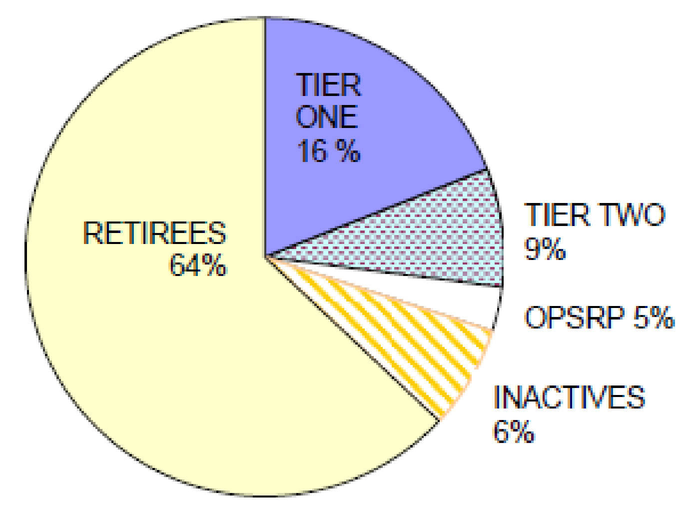


Source: Oregon Public Employees Retirement System, "Market Downturn Impacts on PERS: Frequently Asked Questions;" August 2009.

- **UAL grew back to $16 billion.**
- **Average payroll rates projected to exceed 20%.**

Why Investment Income and COLAs are so Important

- **Investment income accounts for nearly 75% of PERS revenues.**
- **Current retirees + inactives account for 70% of liability.**



Source: PERS: By The Numbers, September 2016

2013 Legislation

Magnitude of projected rate increases forced Legislature's hand.

Two bills passed, largely targeting COLAs, that reduced liabilities by approximately $5 billion, resulting in a reduction of employer rates by 4.5%.

These 'savings' were embedded into 2013 Valuation and used to set rates for July 2015 through June 2017.

However, Supreme Court concluded that majority of these changes were unconstitutional.

2015 Valuation

- UAL grew from \$8.5 billion in 2013 to \$21 billion in 2015 due to Supreme Court decision and sub-par returns (2.2%) in 2015.
- Funded % declined from 86% in 2013 to 71% in 2015.
- Employer rates increased and vast majority were “collared”.

2017 Updates

New Side Account Developments:

- **SB 1067 – allows excess payments to be made to existing SAs.**
- **PERS revised rules: Changed minimums for *new* SA to lesser of 25% of UAL or $250k. Allowed additional deposits to existing SAs for any amount, up to 2X/year. Reduced fees.**
- **New PERS tool projects rates with ‘what if’ deposits to SAs:**

  http://www.oregon.gov/pers/EMP/Pages/Employer-Rate-Projection-Tool.aspx

- **Legislature considering bill to encourage employers to fund SAs, with potential for State matching funds.**

PERS Board reduced assumed earnings rate from 7.5% to 7.2%.

2016 System-Wide Actuarial Valuation (Advisory) released.

2017 Rate of Return was 15.31%, which should reduce UAL.

2016 Valuation

Funded Status & Unfunded Actuarial Liability (UAL)

System-total Pension Funded Status ($ billions)		
Valuation date:	**12/31/2015**	**12/31/2016**
Assumed return:	*7.50%*	*7.20%*
Actuarial liability	$ 76.2	$ 81.0
Assets (excluding side accounts)	54.4	55.7
UAL (excluding side accounts)	$ 21.8	$ 25.3
Funded status (excluding side accounts)	71%	69%
Side account assets	$ 5.6	$ 5.4
UAL (including side accounts)	$ 16.2	$ 19.9
Funded status (including side accounts)	79%	75%

Milliman

2016 Valuation

Sources of 2016 UAL (Excl. Side Account) Increase

($ billions)	UAL Increase
Expected UAL increase/(decrease) during 2016	$ 1.1
2016 actual investment performance	0.0
Decrease in assumed return from 7.50% to 7.20%	2.3
All other assumption changes	0.0
Actual demographic experience different than assumed	0.1
Total	$ 3.5

- The *expected UAL increase/(decrease)* is the change, based on 12/31/2015 valuation results, that was projected to occur during 2016 due to the effects of the rate collar and other constraints on employer rate increases if all actual 2016 experience followed that valuation's assumptions
- Reported 2016 actual returns and crediting were sufficiently close to the assumed return such that the UAL increase effect rounds to $0.0 billion in the table

2016 Valuation

SLGRP Rate Summary

Weighted Average Rates (Tier 1/Tier 2 and OPSRP)

	2017 - 2019	Advisory 2019 - 2021	Change
Uncollared Base Rate	27.75%	30.00%	2.25%
Collared Base Rate	19.40%	24.42%	5.02%
Collared Net Rate	13.88%	19.04%	5.16%

- *The SLGRP's advisory collared base rate is 5.58% of payroll below the uncollared base rate*
- *The uncollared base rate increase was primarily due to the decrease in the assumed return*
- *The collared rate increases are continuing systematic rate modifications to amortize the UAL over time if future experience follows assumptions*

Projected 2019-2021 Contributions

($ millions)	Projected 2017-19 Payroll*	(A) Projected 2017-19 Contribution	Projected 2019-21 Payroll*	(B) Projected 2019-21 Contribution	(B - A) Projected Contribution Increase
State Agencies	$ 5,920	**$ 820**	$ 6,340	**$ 1,205**	**$ 385**
School Districts	6,710	**935**	7,190	**1,465**	**530**
All Others	7,815	**1,155**	8,370	**1,650**	**500**
Total	$ 20,440	**$ 2,910**	$ 21,900	**$ 4,325**	**$ 1,415**

- Collared net rates are used to project 2019-2021 contributions
  - Projections do not reflect the effects of 2017 investment returns

** Assumes payroll grows at 3.50% annually based on 12/31/2016 active member census, reflecting proportional payroll composition (Tier 1/Tier 2 vs. OPSRP) as of 12/31/2016*

City of Wilsonville Contribution Rates

Pension Contribution Rates (Percent of Covered Payroll)

	2017-19 Biennium			2019-21 Biennium (Advisory)		
	T1/T2	OPSRP General	OPSRP P&F	T1/T2	OPSRP General	OPSRP P&F
Normal cost rate	15.22	8.02	12.79	15.00	8.49	13.22
T1/T2 UAL rate	6.03	6.03	6.03	10.67	10.67	10.67
OPSRP UAL rate	1.27	1.27	1.27	1.56	1.56	1.56
Pre-SLGRP pooled liability rate	(1.73)	(1.73)	(1.73)	(1.68)	(1.68)	(1.68)
Transition liability/(surplus) rate	(0.56)	(0.56)	(0.56)	(0.60)	(0.60)	(0.60)
Side account rate relief	-	-	-	-	-	-
Retiree Healthcare rate (RHIA)[1]	0.50	0.43	0.43	0.49	0.42	0.42
Total net contribution rate (%)	20.73	13.46	18.23	25.44	18.86	23.59
Net unfunded pension actuarial accrued liability	$ 16,690,749			$ 18,411,652		

City of Wilsonville - Pension Plan Cost Details

PENSION PLAN BREAKOUT: DECEMBER 2017

By the Numbers: Pension	Rate	Employee	Covered Payroll	December INVOICE	
OPSRP	13.46%	106	$ 467,981.85	$ 62,990.37	
PERS	20.73%	52	$ 327,053.07	$ 67,798.12	
		158	$ 795,034.92	$ 130,788.49	A

By percentage breakdown: Pension	Rate	Employee	Covered Payroll	December INVOICE
OPSRP	13.46%	67%	59%	48%
PERS	20.73%	33%	41%	52%
		100%	100%	100%

IAP: Pension	Rate	Employee	Covered Payroll	December INVOICE	
Individual Account	6.00%	158	$ 795,034.92	$ 47,702.18	B
TOTAL DECEMBER 2017 INVOICE =				$ 178,490.67	A+B

City of Wilsonville – Pension Plan Rate Details

PENSION PLAN Rate Detail:	OPSRP Pension Rate	Tier 1 /2 Rate	OPSRP Contribution	Tier 1 /2 Contribution	Total Contribution
Normal Cost Rate	8.02%	15.22%	$ 37,532.17	$ 49,777.50	$ 87,309.67
UAL	5.01%	5.01%	$ 23,445.88	$ 16,385.35	$ 39,831.23
RHIA	0.43%	0.50%	$ 2,012.32	$ 1,635.27	$ 3,647.59
	13.46%	20.73%	$ 62,990.37	$ 67,798.12	$ 130,788.49

Questions?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Questions?

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