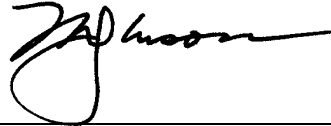


**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL IMPACT STATEMENT**

Bill: HB 2004
Provision: Actuarial Equivalency Factor Tables
Date: January 27, 2003

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SUMMARY OF PROVISIONS

Our understanding of the impact of the provision of this bill on the Oregon Public Employees Retirement Systems benefits or funding, based on our discussion with the PERS staff, is as follows:

The proposal requires the Retirement Board to adopt new actuarial equivalency factor tables based on the best available actuarial information. The current wording of the bill has an effective date for the next change of January 1, 2004. The bill is silent with respect to a member's protected accrued benefit, if any.

Due to recent requests for information, we have calculated four separate fiscal impacts based on the following combinations of effective dates and definitions of a member's protected accrued benefit as of the effective date.

Effective Date	Protected Accrued Benefit
January 1, 2004	Look back with interest
January 1, 2004	Look back without interest
January 1, 2004	No Look back
January 1, 2003	No Look back

For purposes of this report, a "look back" feature prevents the implementation of the new factors from reducing a member's monthly benefit at the effective date of the change. A member would be guaranteed to receive no less than the accrued benefit at the effective date with the application of the previous set of tables. A look back without interest protects the member account balance on the effective date, and a look back with interest also protects future interest credits to the account balance at the effective date.

COMMENTS

The purpose of this report is to estimate the fiscal impact of the proposed benefit changes. The figures presented in this report have been estimated based on the findings in the 2001 actuarial valuation. The overall funded position of the System shown in this report reflects the actuarial value of System assets as of December 31, 2001. Therefore, although the incremental costs of this proposal are reasonable, the overall current funded position of the System may be significantly different than shown in this report.

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The following table compares the conversion factors (converts the member account balance to a monthly lifetime benefit) on the Old Rule basis (members hired prior to 1999) and the New Basis for several illustrative retirement ages. Although many other factors are included in the full set, the conversion factors represent the major issue with respect to the current determination of benefits.

Age at Retirement	<u>Monthly Allowance per \$1,000 Account Balance</u>			
	Old Rule Basis	New Basis	<u>Comparison</u>	
			Dollar	Percent
<u>Option 1 – Non-Refund Life Annuity</u>				
50	\$ 7.43	\$ 7.21	\$ (0.22)	(3.0)%
55	7.86	7.56	(0.30)	(3.8)
60	8.67	8.06	(0.61)	(7.0)
65	9.79	8.79	(1.00)	(10.2)
<u>Option 0 – Refund Life Annuity</u>				
50	\$ 7.32	\$ 7.15	\$ (0.17)	(2.3)%
55	7.66	7.45	(0.21)	(2.7)
60	8.09	7.86	(0.23)	(2.8)
65	8.76	8.42	(0.34)	(3.9)
<u>Option 4 – 15-Year Certain and Life Annuity</u>				
50	\$ 7.24	\$ 7.13	\$ (0.11)	(1.5)%
55	7.51	7.39	(0.12)	(1.6)
60	7.84	7.73	(0.11)	(1.4)
65	8.22	8.13	(0.09)	(1.1)

DATA, METHODS AND ASSUMPTIONS

All active and inactive members on the effective date will be impacted by this provision.

We have developed this analysis based on the data, methods, and assumptions contained in the actuarial valuation of the System performed as of December 31, 2001. In addition, we made the following assumptions with respect to this bill:

- For purposes of this fiscal impact statement, we assumed that this is the only benefit provision being considered. If other provisions are enacted, the cost associated with this provision may be different.
- We have not made any adjustment for actuarial gains or losses that may have emerged since the last valuation date, December 31, 2001. We are

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aware of the significant investment losses (returns lower than 8% per year on a fair market value basis) in 2002. We will not be able to measure the actuarial gains or losses from other sources until we complete future valuations with updated census information.

- We assumed that 6,600 members retired in 2002 and that 8,500 will retire in 2003. Both of these estimates far exceed the current assumption of about 4,500 retirements per year for these two years.

These cost estimates are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs may vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.

FISCAL IMPACT

Based on our understanding of this proposal and the data, methods and assumptions outlined above, we have developed the following estimated impact on the funding of the System, based on the 2001 actuarial valuation.

The following table shows a brief summary of the impact of each of the four scenarios we evaluated.

Effective Date of New Tables	Rule to Protect Accrued Benefit	<u>Reductions to Liabilities and Costs</u>	
		Unfunded Liability (\$millions)	Employer Rates (Percent of Salary)
January 1, 2004	Look back with interest	\$ (442.8)	(0.78)%
January 1, 2004	Look back without interest	(1,460.3)	(1.97)%
January 1, 2004	No Look back	(1,553.6)	(2.05)%
January 1, 2003	No Look back	(1,667.8)	(2.16)%

A more complete fiscal impact statement for each scenario follows.

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Pension Plan Only (excludes Retiree Healthcare Plans) <u>Look back with interest at 2004</u>	2001 Actuarial Valuation	Results Including Proposal	Change due to Proposal
Actuarial Balance Sheet (\$millions)			
Value of Projected Benefits	\$ 54,132.5	\$ 53,496.9	\$ (635.6)
Value of Future Normal Costs	<u>8,746.4</u>	<u>8,553.6</u>	<u>(192.8)</u>
Actuarial Liability	\$ 45,386.1	\$ 44,943.3	\$ (442.8)
Actuarial Value of Assets	<u>39,772.7</u>	<u>39,772.7</u>	<u>0.0</u>
Unfunded Actuarial Liability	\$ 5,613.4	\$ 5,170.6	\$ (442.8)
Increase in Actuarial Liability: Active and Inactive Members			\$ (442.8)
Increase in Actuarial Liability: Retirees and Beneficiaries			\$ 0.0
Average Employer Contribution Rate (percent of member salaries)			
Employer Normal Cost Rate	10.52%	10.16%	(0.36)%
Rate of Amortization Contribution through December, 2027	<u>5.28%</u>	<u>4.86%</u>	<u>(0.42)%</u>
Employer Contribution Rate (Normal Cost plus Amortization using the Actuarial Value of Assets)	15.80%	15.02%	(0.78)%
Annual Revenue Required to Fund this Proposal (\$millions)			
	Projected	Change in	Change in
	2003-04	Employer	Employer
	Salaries	Rate	Contributions
State and Local Government Rate Pool			
State Agencies	\$ 1,832.9	(0.77)%	\$ (14.1)
Community Colleges	290.8	(0.77)	(2.2)
Pooled Local Employers	<u>1,245.7</u>	<u>(0.77)</u>	<u>(9.6)</u>
Total SLGRP	\$ 3,369.4	(0.77)%	\$ (25.9)
Independent Local Employers (Average)	972.2	(0.68)	(6.6)
School Districts	2,437.8	(0.84)	(20.5)
State Judiciary	<u>17.4</u>	<u>(0.00)</u>	<u>(0.0)</u>
Total	\$ 6,796.8	(0.78)%	\$ (53.0)

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Pension Plan Only (excludes Retiree Healthcare Plans) <u>Look back without interest at 2004</u>	2001 Actuarial Valuation	Results Including Proposal	Change due to Proposal
Actuarial Balance Sheet (\$millions)			
Value of Projected Benefits	\$ 54,132.5	\$ 52,360.2	\$ (1,772.3)
Value of Future Normal Costs	<u>8,746.4</u>	<u>8,434.4</u>	<u>(312.0)</u>
Actuarial Liability	\$ 45,386.1	\$ 43,925.8	\$ (1,460.3)
Actuarial Value of Assets	<u>39,772.7</u>	<u>39,772.7</u>	<u>0.0</u>
Unfunded Actuarial Liability	\$ 5,613.4	\$ 4,153.1	\$ (1,460.3)
Increase in Actuarial Liability: Active and Inactive Members			\$ (1,430.3)
Increase in Actuarial Liability: Retirees and Beneficiaries			\$ 0.0
Average Employer Contribution Rate (percent of member salaries)			
Employer Normal Cost Rate	10.52%	9.93%	(0.59)%
Rate of Amortization Contribution through December, 2027	<u>5.28%</u>	<u>3.90%</u>	<u>(1.38)%</u>
Employer Contribution Rate (Normal Cost plus Amortization using the Actuarial Value of Assets)	15.80%	13.83%	(1.97)%
Annual Revenue Required to Fund this Proposal (\$millions)			
	Projected 2003-04 Salaries	Change in Employer Rate	Change in Employer Contributions
State and Local Government Rate Pool			
State Agencies	\$ 1,832.9	(1.96)%	\$ (35.9)
Community Colleges	290.8	(1.96)	(5.7)
Pooled Local Employers	<u>1,245.7</u>	<u>(1.96)</u>	<u>(24.4)</u>
Total SLGRP	\$ 3,369.4	(1.96)%	\$ (66.0)
Independent Local Employers (Average)	972.2	(1.65)	(16.0)
School Districts	2,437.8	(2.12)	(51.6)
State Judiciary	<u>17.4</u>	<u>(0.00)</u>	<u>(0.0)</u>
Total	\$ 6,796.8	(1.97)%	\$ (133.6)

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Pension Plan Only (excludes Retiree Healthcare Plans) <u>No Look back at 2004</u>	2001 Actuarial Valuation	Results Including Proposal	Change due to Proposal
Actuarial Balance Sheet (\$millions)			
Value of Projected Benefits	\$ 54,132.5	\$ 52,266.9	\$ (1,865.6)
Value of Future Normal Costs	<u>8,746.4</u>	<u>8,434.4</u>	<u>(312.0)</u>
Actuarial Liability	\$ 45,386.1	\$ 43,832.5	\$ (1,553.6)
Actuarial Value of Assets	<u>39,772.7</u>	<u>39,772.7</u>	<u>0.0</u>
Unfunded Actuarial Liability	\$ 5,613.4	\$ 4,059.8	\$ (1,553.6)
Increase in Actuarial Liability: Active and Inactive Members			\$ (1,553.6)
Increase in Actuarial Liability: Retirees and Beneficiaries			\$ 0.0
Average Employer Contribution Rate (percent of member salaries)			
Employer Normal Cost Rate	10.52%	9.93%	(0.59)%
Rate of Amortization Contribution through December, 2027	<u>5.28%</u>	<u>3.82%</u>	<u>(1.46)%</u>
Employer Contribution Rate (Normal Cost plus Amortization using the Actuarial Value of Assets)	15.80%	13.75%	(2.05)%
Annual Revenue Required to Fund this Proposal (\$millions)			
	Projected	Change in	Change in
	2003-04	Employer	Employer
	Salaries	Rate	Contributions
State and Local Government Rate Pool			
State Agencies	\$ 1,832.9	(2.04)%	\$ (37.4)
Community Colleges	290.8	(2.04)	(5.9)
Pooled Local Employers	<u>1,245.7</u>	<u>(2.04)</u>	<u>(25.4)</u>
Total SLGRP	\$ 3,369.4	(2.04)%	\$ (68.7)
Independent Local Employers (Average)	972.2	(1.72)	(16.7)
School Districts	2,437.8	(2.22)	(54.0)
State Judiciary	<u>17.4</u>	<u>(0.00)</u>	<u>(0.0)</u>
Total	\$ 6,796.8	(2.05)%	\$ (139.4)

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Pension Plan Only (excludes Retiree Healthcare Plans) <u>No Look back at 2003</u>	2001 Actuarial Valuation	Results Including Proposal	Change due to Proposal
Actuarial Balance Sheet (\$millions)			
Value of Projected Benefits	\$ 54,132.5	\$ 52,152.7	\$ (1,979.8)
Value of Future Normal Costs	<u>8,746.4</u>	<u>8,434.4</u>	<u>(312.0)</u>
Actuarial Liability	\$ 45,386.1	\$ 43,718.3	\$ (1,667.8)
Actuarial Value of Assets	<u>39,772.7</u>	<u>39,772.7</u>	<u>0.0</u>
Unfunded Actuarial Liability	\$ 5,613.4	\$ 3,945.6	\$ (1,667.8)
Increase in Actuarial Liability: Active and Inactive Members			\$ (1,667.8)
Increase in Actuarial Liability: Retirees and Beneficiaries			\$ 0.0
Average Employer Contribution Rate (percent of member salaries)			
Employer Normal Cost Rate	10.52%	9.93%	(0.59)%
Rate of Amortization Contribution through December, 2027	<u>5.28%</u>	<u>3.71%</u>	<u>(1.57)%</u>
Employer Contribution Rate (Normal Cost plus Amortization using the Actuarial Value of Assets)	15.80%	13.64%	(2.16)%
Annual Revenue Required to Fund this Proposal (\$millions)			
	Projected	Change in	Change in
	2003-04	Employer	Employer
	Salaries	Rate	Contributions
State and Local Government Rate Pool			
State Agencies	\$ 1,832.9	(2.15)%	\$ (39.4)
Community Colleges	290.8	(2.15)	(6.3)
Pooled Local Employers	<u>1,245.7</u>	<u>(2.15)</u>	<u>(26.8)</u>
Total SLGRP	\$ 3,369.4	(2.15)%	\$ (72.5)
Independent Local Employers (Average)	972.2	(1.80)	(17.5)
School Districts	2,437.8	(2.34)	(57.0)
State Judiciary	<u>17.4</u>	<u>(0.00)</u>	<u>(0.0)</u>
Total	\$ 6,796.8	(2.16)%	\$ (147.0)