OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL IMPACT STATEMENT

Bill: **HB 2004-6**
Provision: **Actuarial Equivalency Factor Tables**
Date: **February 18, 2003**

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SUMMARY OF PROVISIONS

Our understanding of the impact of the provisions 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. A procedure is established to change the actuarial factors every two years on January 1 after the adoption of the assumptions to be used in the biennial valuation. The first effective date for the regular changes will be January 1, 2005.

In addition, the proposal requires a change as of July 1, 2003. For this change and this change only, a member's accrued benefit as of June 30, 2003 will be protected. For the purpose of this test, the money match accrued benefit consists of the member account balance without the future accrual of interest.

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.

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 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 5,100 will retire in the first half of 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.

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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.

Pension Plan Only (excludes Retiree Healthcare Plans) ***Look back without interest at June 30, 2003***	**2001 Actuarial Valuation**	**Results Including Proposal**	**Change due to Proposal**
Actuarial Balance Sheet ***($millions)***			
Value of Projected Benefits	$ 54,132.5	$ 52,232.5	$ (1,900.0)
Value of Future Normal Costs	8,746.4	8,434.4	(312.0)
Actuarial Liability	$ 45,386.1	$ 43,798.1	$ (1,588.0)
Actuarial Value of Assets	39,772.7	39,772.7	0.0
Unfunded Actuarial Liability	$ 5,613.4	$ 4,025.4	$ (1,588.0)
Increase in Actuarial Liability: Active and Inactive Members			$ (1,588.0)
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	5.28%	3.78%	(1.50)%
Employer Contribution Rate *(Normal Cost plus Amortization using the Actuarial Value of Assets)*	15.80%	13.71%	(2.09)%

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	(2.08)%	$ (38.1)
Community Colleges	290.8	(2.08)	(6.0)
Pooled Local Employers	1,245.7	(2.08)	(25.9)
Total SLGRP	$ 3,369.4	(2.08)%	$ (70.0)
Independent Local Employers (Average)	972.2	(1.74)	(16.9)
School Districts	2,437.8	(2.26)	(55.0)
State Judiciary	17.4	(0.00)	(0.0)
Total	$ 6,796.8	(2.09)%	$ (141.9)