

## Testimony Before the House Committee on PERS

April 8, 2003

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Chair Knopp and members of the committee, last week several questions arose about the replacement ratio produced by DC plans containing various parameters, including the DC portion of the hybrid plan structure you have presented. You asked that we address those questions, and do so particularly with recognition of the contribution made by Social Security. We are pleased to provide the following information and hope that you find it responsive.

### **What are the estimated replacement ratio's associated with The Oregon Retirement Plan for Public Employees -- DB + IAP hybrid -- presented to the House Committee on PERS?**

Attached find two printouts from our total retirement stream model; one for General Service, the other for P&F. The first page specifies in great detail all of the assumptions necessary for comprehensive estimation. Mark Johnson, our actuary, has reviewed this model and our Director of Internal Audit has also reviewed it. The assumptions drive the results and these assumptions should conform exactly to your plan summary.

We have chosen an illustrative member who begins his/her career under the successor plan with a beginning salary of \$28,000 as is shown on the front page. The total replacement rates at various points in this illustrative member's retirement period are noted in the results page. The replacement ratio contributed to this total retirement income stream by the DC portion of the plan *alone* is 32% for General Service (age 65) and 23.8% for P&F (age 60). Note that two key drivers of these results are the contribution rate of 6% of salary and the estimated investment return of 8%. For the hybrid plan as a *whole* (DC and DB) *and* in concert with Social Security, the replacement ratio's at age 67 are approximately 115% for general service and 120% for P&F.

### **What are the estimated replacement ratio's associated with the DC-based Fair Retirement Plan presented to the House Committee on PERS?**

Attached find similar total retirement income forecasts for the Fair Retirement Plan (DC based). These use the same illustrative member beginning his/her career at a starting salary of \$28,000. The forecast assumes that the employee takes full advantage of the employer match by contributing 6% of salary, triggering an additional contribution by the employer of another 6% of salary (these are replaced by 7.15% for P&F). This DC structure produces an estimated replacement ratio of approximately 64% taken *alone* for general service at their normal retirement age of 65 and 57% for P&F at their earlier retirement age of 60. The estimated replacement ratio produced under this scenario in concert *with* Social Security at age 67 is approximately 100% for general service and 102% for P&F.