



Questions & Answers:

PERS

New questions have arisen in recent weeks regarding PERS, due in part to reports issued at the July 2009 PERS Board of Directors meeting and in part (at least in the Portland area) in response to a series of “informational meetings” hosted by a private investment company. Unfortunately, that company seems to give out at least as much *misinformation* as it does information when it comes to PERS.

The current questions being bandied about revolve around two issues: mortality (or “actuarial”) tables and their impact on the soon-to-retire, and PERS’ earnings assumption rate. Following are the answers to some of the questions we’ve been receiving.

Q. *Is it true PERS is adopting new mortality tables that will reduce my retirement benefits by as much as 20 percent?*

A. This is a two-part question, and it is important to understand the answer is Yes and No. Yes, the PERS Board adopted new mortality tables, but no, there is *not* a 20 percent impact.

The board did adopt new mortality tables in July. Part of the 2003 PERS reform legislation directed PERS to make certain that actuarial assumptions were, in fact, consistent with the actual experience of the plan. Plain and simple, for many years PERS was using outdated mortality tables and average PERS retirees were outliving the actuarial assumptions. Now PERS is mandated to amend the assumptions from time to time to match the longer life expectancy. *A result of these changes is that the monthly benefit at the time of retirement will go down with the expectation that the benefits will be paid over a longer period of time* — there’s no way around that fact. But it is inarguable that it is better in the long term for all concerned that PERS is using accurate mortality tables.

But again, no, these newly adopted tables will not impact anyone by 20 percent. The best estimate from the PERS actuary is that implementing the new tables will mean an approximate 2 (two) percent loss of value for *retiring money match members* commencing Jan. 1, 2010. **Please note this impacts those retiring Jan. 1, 2010 and beyond — if you are already retired, this change does not affect you.** Also, with all of the changes to the system made in 2003, we are seeing fewer and fewer PERS members go out on the money match system anyway — more are ending up better off under the full formula calculation. But clearly members should take this information into account when making their retirement planning.

If you’ll soon be retiring and this is a big concern, here’s one other factor to consider: officials from PERS estimate you can offset that 2 percent loss by simply working two or three *months* longer before you retire.

Q. *Is PERS just trying to lower the benefits it has to pay out?*

A. That would not be a fair statement. The reality is that the lowered benefits for *some* people are more like a form of “collateral damage,” so to speak. These mortality rates are chiefly being adopted for the

purpose of evaluating and adjusting the overall plan for *employer contribution purposes*. However, folding in the new set of actuarial factors will have a direct impact on some future Tier One money match retirees.

Q. Were there other changes to the actuarial tables?

A. Yes, in that PERS moved to adopt what are called “generational tables,” which are tables that use a slightly different longevity expectation depending on your year of birth. These tables have built in assumptions about increases in longevity, which makes the tables essentially self-adjusting.

In other words, with all of the ever-increasing advancements in medical technology, diagnosis and treatment, the later you were born (or put another way, “the younger you are”) the better the chance you have statistically of living longer. So again, this all segues back to PERS’ mandate to implement and use statistically accurate mortality tables.

There’s good news in this change as well, in that because the generational tables are self-adjusting, it is likely that any additional changes that will be made in the future will be smaller than what we have recently experienced. We should point out that while the PERS Board made the commitment to move forward with these changes, they won’t become “official” until they so vote at their November meeting ... though it will likely be a formality at that point. And PERS has promised to get examples and impacts posted to its website as soon as possible.

Q. On another subject, I heard that PERS is trying to change the 8 percent earnings rate?

A. The short answer here is no — but as usual with PERS the full answer is complex.

Under Oregon law the PERS Board must set the assumed earnings rate annually and that rate must be set in conjunction with actuarial information. In other words, the board can’t willy-nilly pick some number from the sky, it must be supported by actuarial criteria.

As part of his presentation, the PERS actuary did present the board with a model for the rate being set at both 7.5 percent and at 8 percent. After hearing many reports and much other information, including estimates from the Oregon Investment Council that PERS earnings should be substantially over 8.5 percent this year, the PERS Board once again left the rate at 8 percent — which is where it has been since the 1980s. It did not change.

Q. Then why did I hear they were trying to change it?

A. Probably because at one point the actuary did recommend lowering the rate to 7.5 percent. Understand that actuaries are notoriously conservative, and that the PERS actuary doesn’t get to make any decisions, he just gives recommendations. The PERS Board of Directors voted unanimously to maintain the 8 percent figure that, again, has been the number since the 1980s.

A final thought on this subject. Should the PERS Board ever lower the assumed earnings rate, it also has a negative impact on employers — i.e., it would increase the employer contribution rate. So there will always be pressure from both sides for the board to leave the 8 percent rate alone.



Questions?

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