Materials linked from the October 27, 2016 Faculty Economic Welfare and Retirement Committee agenda.

From: "Chastain, Donna" <Donna.Chastain@oregonstate.edu>
Subject: RE: FEWRC report and other issues
Date: June 21, 2016 at 10:20:21 AM PDT
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I would like to add some clarifying comments related to the PERS discussion. If you have questions, please let me know.

The ORP program is a defined contribution account, while the PERS program is a combination defined benefit and defined contribution (IAP). With a defined benefit pension program, the employee's pension benefit is determined by a formula and is not impacted by market returns (except if using the Money Match formula) or if the employee lives only a couple of years after retirement or lives until 100 years of age.

Legislative PERS reforms created the PERS Tier structure that we currently have: PERS Tier 1, PERS Tier 2, and the OPSRP program. The creation of the IAP (Individual Account Program) in 2004 was one of these reforms. The IAP is a defined contribution account, which acts like a savings account, and is an additional amount the employee receives along with the life-long pension benefit as calculated by their PERS tier.

The legislature created the IAP account in the hopes to reduce the PERS cost (liability) to employers and the very lucrative Money Match formula for some employees in PERS Tier 1 & Tier 2. The Money Match formula was generating (in some circumstances) a life-long pension benefit of more than 100% and even up to 200% of average ending salary, which was not sustainable for the system.

Employees still receive a benefit from the employer contribution because it is funding the life-long pension benefit that the employee is earning throughout their career – this benefit increases with each year worked. The contribution goes into the employer's account and does not have the employee's name on it. The employer is responsible for funding the life-long pension benefit generated from the most advantageous pension formula. I do agree, that employees may no longer have the Money Match Formula as the formula that generates the highest pension benefit at a rate of 80%, 100% or greater when they retire; but they are receiving a benefit from the employer contribution.

Here are a couple of recent examples:

- Employee is Tier 2 member, age 60, hired in 2000, has $9,500 in their PERS Tier 2 account balance and $60,000 in their IAP account. Their average monthly salary is $2,784. The Employee will retire under the Full Formula method and their anticipated pension benefit is $8,927 per year. The $60,000 IAP account is in addition to the life-long annual benefit of $8,927. Without the Employer contribution, there would have only been $9,500 (amount in the Tier 2 account) to fund the employee's life- long pension benefit of $8,927/annually. If the employee lives for 25 years, they will have received $223,175 (does not include cost of living increases) in benefits (not including the IAP account)
- Employee is a Tier 1 member, has 31.5 years of service, age 60, and has $163,000 in their PERS Tier 1 account balance and $100,000 in their IAP account. Their average monthly salary is $10,730. The employee will retire under the Full Formula and their anticipated pension benefit is $5,910 per month or $70,920 per year. Without the employer contribution, there would have only been $163,000 available to fund the life-long benefit of $70,920 per year. The $100,000 in the IAP account is in addition to the life-long benefit the employee will receive. If the employee lives 25 years, the employee will receive $1,773,000 in pension benefits (does not include cost of living increases) and the amount they had in their IAP account.

<u>Contributions to Pension Program</u>:

For all PERS Tiers (Tier 1, Tier 2, and OPSRP), there are two contributions that help fund the employee's pension benefit:

- **Employee 6% contribution**, which OSU currently pays for the employee
  - **Prior to January 1, 2004**
    - The "employee" contribution was placed in the employee's Tier 1 or Tier 2 account.
    - The Tier 1 and Tier 2 account was used to help fund the employee's life-long pension benefit when they retired (they did not get this amount paid out separately).
  - **On or after January 1, 2004,**
    - The "employee" contribution is now placed in the IAP (Individual Account Program) for all Tiers (Tier 1, Tier 2, and OPSRP).
    - This is a separate defined contribution account (think of it as a savings account) and is paid out **<u>in addition</u>** to the life-long pension benefit that the employee receives from their Tier 1, Tier 2, or OPSRP pension.
- **Employer Contribution**
  - OSU continues to pay an employer contribution for all employees that are in retirement eligible positions and have elected PERS (OSU has not stopped making employer contributions)
  - Goes into a separate Employer account to fund the pension benefits of current retirees and future retirees (including the employee)
  - Funds the life-long pension benefit that the employee will receive when they retire
  - Contribution rates change every two years based on an actuarial study on the number of PERS members by Tier, anticipated retirements, and life expectancy of those retirees

Pension Formulas:

- **PERS Tier 1 & Tier 2 members** continue to have their pension benefit calculated under three formulas, the formula that results in the highest benefit is the formula that the employee will retire under.
  - **Full Formula** = Years of Service x Average Ending Salary x 1.67% (*will generate 50% of average ending salary with 30 years of service)*
  - **Money Match** = Tier 1 or Tier 2 Account Balance x 2 x Age Factor
  - **Full Formula + Annuity** (for members prior to 8/21/1981) = (Years of Service x Average Ending Salary x 1.67%) + (Tier 1 Account Balance x Age Factor)
- **OPSRP members**
  - Years of Service x Average Ending Salary x 1.5% *(will generate 45% of average ending salary with 30 years of service)*

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