

## Oregon Public Employee Retirement and Health Benefits

### BACKGROUND

Retirement and health benefit costs have been discussed a number of times with the Board of Trustees, most recently in the context of the public universities' funding request for 2017-19. State statutes currently require Oregon State University to participate in both the Public Employees Retirement System (PERS) and the Public Employees' Benefit Board (PEBB). Senate Bill 270, passed in 2013, requires universities with governing boards to continue to participate with other public universities in all shared administrative services relating to employee benefits. It required the same terms, conditions, funding model and policy framework to be in effect through July 1, 2015. More recently, House Bill 2611, approved in 2015, extended the required participation in PEBB, PERS, and the Optional Retirement Plan (ORP) until July 1, 2019.

Following discussions of the public universities funding request, the Finance & Administration Committee requested an in-depth discussion of specific cost drivers affecting university operations and tuition rates, in particular PERS and PEBB costs. Biennial increases for PERS and PEBB costs for the public universities are estimated at 23.9% and 9.7%, respectively. The public universities' funding request included an increase of \$100 million for the Public University Support Fund largely to prevent students from carrying the burden of these increasing benefit costs.

Attachment 1 provides additional background and trends in costs on the specific benefit plans. Attachment 2 includes a subset of slides presented by the PERS director to a legislative committee last month and gives the basic PERS funding equation, liability by member category, and projected benefits by program.

### PANEL DISCUSSION

The Finance & Administration Committee will host a panel of staff at the March 16, 2017 meeting for a discussion around questions such as:

- What alternatives or flexibility does the university have in its participation in PERS and PEBB?
  - What current legal and other constraints exist?
  - If available, what risks, cost savings, or benefits might be associated with pursuing alternatives?
- What approaches are being considered by the legislature to address the state's retirement and health benefit costs?
- Are other public universities pursuing alternative approaches to employee retirement or health benefits? If so, what approaches are being considered?

## RETIREMENT PLANS

University employees who are benefits eligible participate in one of two pension programs:

1. Oregon Public Employees Retirement System (PERS)<sup>1</sup> and Oregon Public Service Retirement Plan (OPSRP)<sup>2</sup> – available to both classified and unclassified employees, depending on hire date.

PERS manages the PERS pension, the OPSRP pension, and the Individual Account Program (IAP).

The PERS and OPSRP components are multi-employer *defined benefit plans* funded by OSU (and the other participating employers) that provide a lifetime pension benefit.

- A defined benefit plan provides a pension benefit based on a predetermined formula. The plan administrator then sets the employer contribution rates to pay for those benefits.
- Contribution rates are actuarially determined using projections about current and future events that might affect the final retirement benefits.
- The PERS Board first determines the actuarial cost of the projected benefits for each retired and active member and then attempts to set current contributions so that, when invested, those contributions, along with previous contributions and accumulated investment earnings (or losses), will grow and fund the benefits that the members will receive in retirement.

The IAP component is a *defined contribution plan*, with a 6% member contribution funded by either the employer or the employee (often referred to as the “pick-up”). OSU currently makes the IAP contribution on behalf of employees pursuant to the public universities’ collective bargaining agreement with the Service Employees International Union (SEIU).

- A defined contribution pension benefit is based on contributions made to the plan plus any investment earnings. It does not provide a lifetime benefit or promise that a member will receive any particular amount at retirement.

The PERS Board sets employer contribution rates for the defined benefit portion. State statute sets the rate of the defined contribution plan. Rates are set biennially, although in rare circumstances may be adjusted annually.

Oregon state government may use what are termed Pension Obligation Bonds (POB) to fund the unfunded liability portion of its employees’ pension program. POBs were issued in 2003. All benefitting agencies pay the same rates to service the debt, but the Department of Administrative Services periodically recalculates the rates. POB rates began in 2004 at 7.39% of PERS subject payroll, reached a low of 5.95% during 2008 into 2011, and currently are set at 6%.

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<sup>1</sup> Oregon Revised Statute (ORS) Chapter 238

<sup>2</sup> ORS Chapter 238A

2. Optional Retirement Program (ORP)<sup>3</sup> – available to unclassified employees.

The Oregon Public University Retirement Program (OPURP) administers the ORP. The University of Oregon is the shared service provider of the OPURP. The ORP is a *defined contribution plan* with participant-directed investing. It does not provide a guaranteed lifetime benefit. For new employees the current available plan (Tier 4) provides for a university employer contribution of 8% with up to a 4% employer match if the employee participates in the voluntary retirement savings 403(b) program.

ORP employer contribution rates for ORP Tier 1, 2, and 3 are derived from PERS rates. The Tier 4 ORP rates are constant and are set in state statute ORS 243.800(10).

The Oregon legislature has attempted to control retirement costs over the years, resulting in several different tiers. An employee's hire date and prior PERS membership determines the specific tier in each program in which the employee participates.

Table 1 shows public university rates for the various retirement plan tiers. The "Employer Contribution Change" column reflects the annual increase attributable to the "Employer Contribution" portion of the rate. The "Total Annual Increase" column reflects the increase in total retirement costs – all components combined (EC+IAP+POB):

**TABLE 1: Public university retirement rates effective FY2018.**

Plan Tier	Applicable Hire Dates	Rates as a Percent of Payroll				Increases in Rates from Prior Year	
		Employer Contribution (EC)	Employee Contribution (IAP) "pick-up"	Debt Service (POB)	Total Annual (EC + IAP + POB)	Employer Contribution Only	Total Annual Increase
PERS T1	On or prior to 12/31/1995	17.84%	6.00%	6.00%	29.84%	34.34%	18.04%
PERS T2	Between 1/1/1996 and 8/28/2003	17.84%	6.00%	6.00%	29.84%	34.34%	18.04%
PERS T3/ OPSRP*	On or after 8/29/2003	10.78%	6.00%	6.00%	22.78%	47.47%	17.97%
ORP T1	On or prior to 12/31/1995	23.68%	6.00%	0.00%	29.68%	15.79%	12.21%
ORP T2	Between 1/1/1996 and 8/28/2003	23.68%		0.00%	23.68%	15.79%	-10.47%
ORP T3	Between 8/29/2003 and 6/30/2014	9.29%	6.00%	0.00%	15.29%	17.00%	9.68%
ORP T4 *	On or after 7/1/2014	8.00%	1% - 4%	0.00%	8% - 12%	0.00%	0.00%

\*Open to new employees without prior PERS or ORP membership

<sup>3</sup> ORS 243.800

Chart 1 shows increases in retirement costs over time:

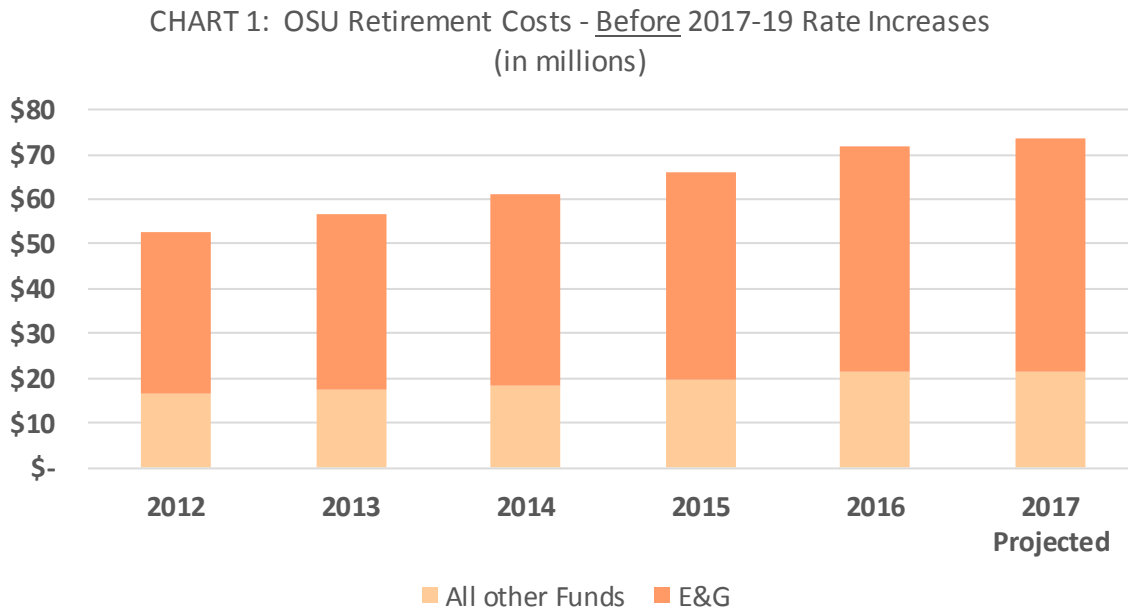
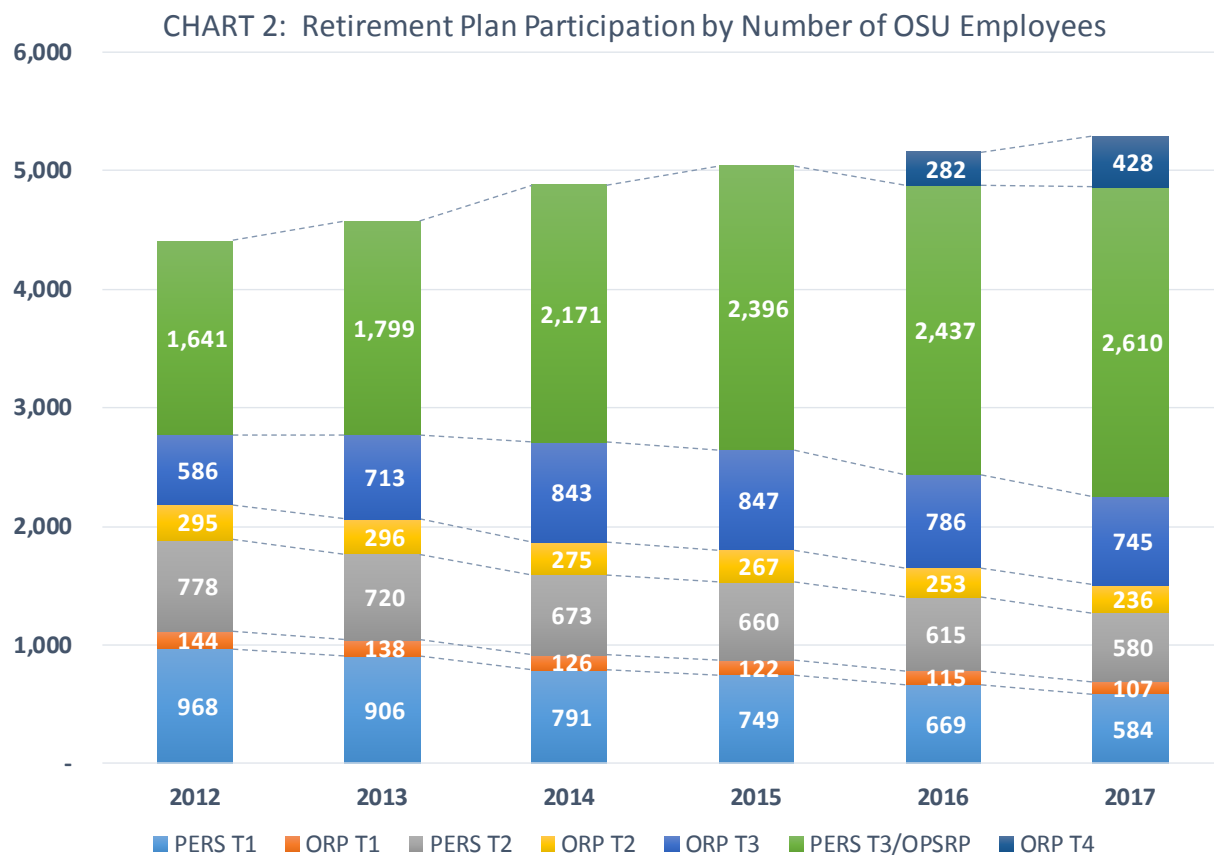


Chart 2 shows the change in plan participation by number of employees since 2012:



## HEALTH PLANS

Oregon's Public Employees' Benefits Board (PEBB) contracts for and administers benefits for state employees. Primary benefits include medical, dental, and vision plans. Currently OSU employees choose among five different medical plans, two vision plans, and four dental plans. PEBB sets rates annually.

Employers pay most of the premium. At OSU, most employees pay 5% of the premium. Classified employees who enroll in the least costly plan pay only 3%. Plan premiums are organized into four tiers according to the individual(s) being covered:

1. Employee only
2. Employee and Spouse/Partner
3. Employee and Children
4. Employee and Family

Table 2 summarizes enrollment by plan tier for OSU employees:

<b>TABLE 2: PEBB Enrollments – January 2017 Coverage*</b>		
<b>Medical Plan Tier</b>	<b>Number of Employees Covered</b>	<b>Percent of Total</b>
Employee Only**	1,867	35%
Employee and Spouse/ Partner	1,180	22%
Employee and Children	382	7%
Employee and Family	1,944	36%
<b>Total</b>	<b>5,373</b>	<b>100%</b>

\*May not include new employee enrollments.

\*\*Includes 396 employees who have selected medical opt out.

Due to an impending federal excise tax in the Affordable Care Act, PEBB has begun a multiyear change to the medical premium rate structure to avoid incurring the excise tax in 2018. The impact of this structure change is most pronounced for the Employee and Family premium. As shown in Table 3, in 2016, the Employee and Family premium was 1.37 times the Employee Only premium. By 2018, the excise tax threshold has the Employee and Family premium 2.7 times the Employee Only premium. OSU healthcare costs will be impacted by overall cost increases in health premiums but also by the mix of employee plan participation across the tiers.

Table 3 shows the ratios of PEBB premiums through 2018:

<b>TABLE 3: Multiyear Changes in Medical Premium Rate Structure</b>				
<b>Premium Tier</b>	<b>PEBB 2016 Tier Ratio</b>	<b>PEBB 2017 Tier Ratio</b>	<b>PEBB 2018 Tier Ratio</b>	<b>Excise Tax Threshold</b>
Employee Only	1.00	1.00	1.00	1.00
Employee and Spouse/Partner	1.34	1.65	2.00	2.70
Employee and Children	1.15	1.40	1.70	2.70
Employee and Family	1.37	2.00	2.70	2.70

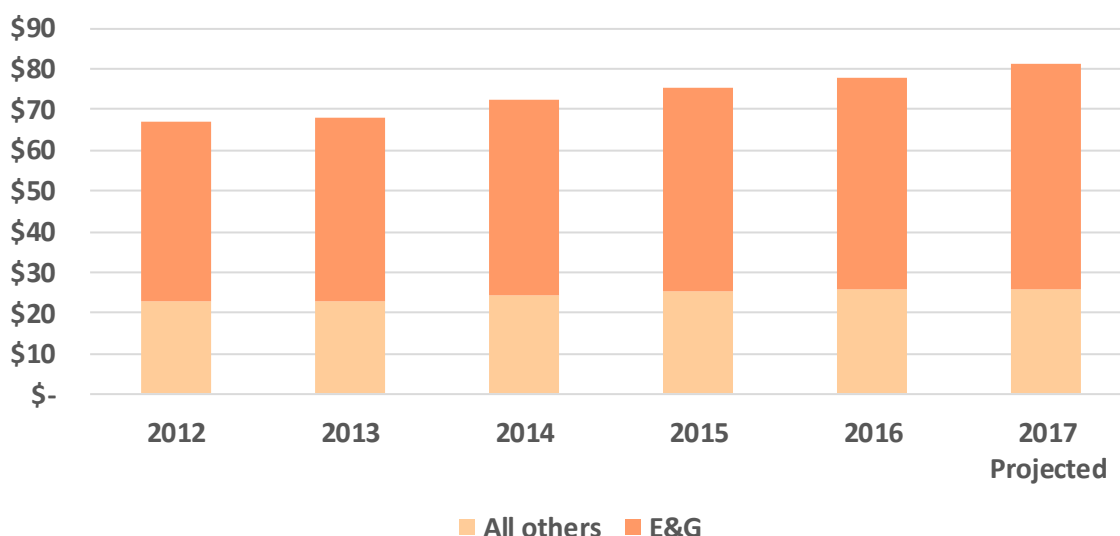
Tables 4 and 5 estimate the average change in monthly medical premiums from 2016 to 2017 under PEBB's planned change:

TABLE 4: Change in Monthly Medical Premium from 2016 to 2017		
Premium Tier	Average Change Across Six Plans	Percent Change
Employee Only	\$(183.08)	-18.3%
Employee and Spouse/Partner	\$ 7.79	0.5%
Employee and Children	\$ (6.44)	-0.6%
Employee and Family	\$ 263.53	19.2%

TABLE 5: Change in Highest Monthly Premiums Across Plan Tiers from 2016 to 2017				
Premium Tier	Highest in 2016	Highest in 2017	Change	
Employee Only	\$ 1,092.25	\$ 906.15	\$ (186.10)	-17.0%
Employee and Spouse/Partner	\$ 1,463.60	\$ 1,495.15	\$ 31.55	2.2%
Employee and Children	\$ 1,256.10	\$ 1,268.61	\$ 12.51	1.0%
Employee and Family	\$ 1,496.37	\$ 1,812.30	\$ 315.93	21.1%

Chart 3 shows increases in healthcare costs over time for Education & General (E&G) funds and other funds:

CHART 3: OSU Healthcare Costs  
(in millions)



As a result of the premium increases and shifts in costs across plan tiers, the net change in OSU health benefit costs (all funds) is projected to increase by 4.6% in 2018. Effective October 1, 2016, by statute, public universities may elect to provide an alternative group health and

welfare insurance benefit plan to employees of the university if the benefit plan is offered through the state's health insurance exchange. Initial estimates suggest that the healthcare exchange would not offer better coverage for employees and would most likely not result in any cost savings.

# **PERS Overview**

## **Senate Committee on Workforce**

**Steven Patrick Rodeman**  
**PERS Executive Director**

**February 2017**





# The PERS Funding Equation

At the end of each calendar year, the PERS actuaries calculate the system's funded status using the following basic equation:

$$B = C + E$$

$$\text{BENEFITS} = \text{CONTRIBUTIONS} + \text{EARNINGS}$$

present value of  
earned benefits

employer funds to pay  
pension benefits

future returns on  
invested funds

Set by:

Oregon Legislature

Set by:

PERS Board

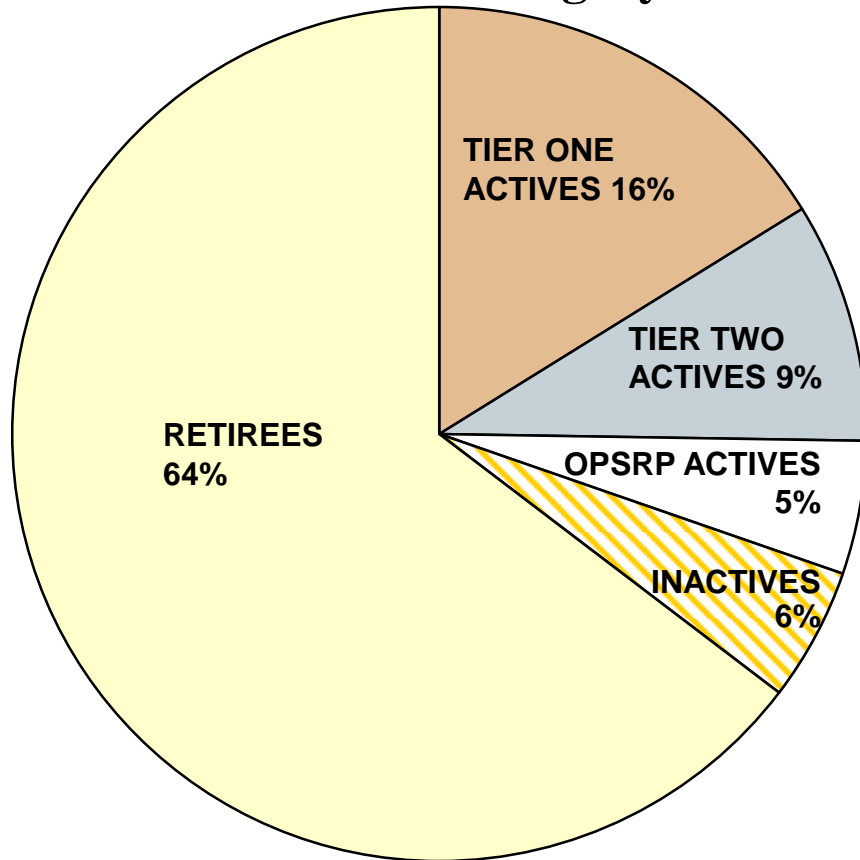
Managed by:

Oregon Investment Council

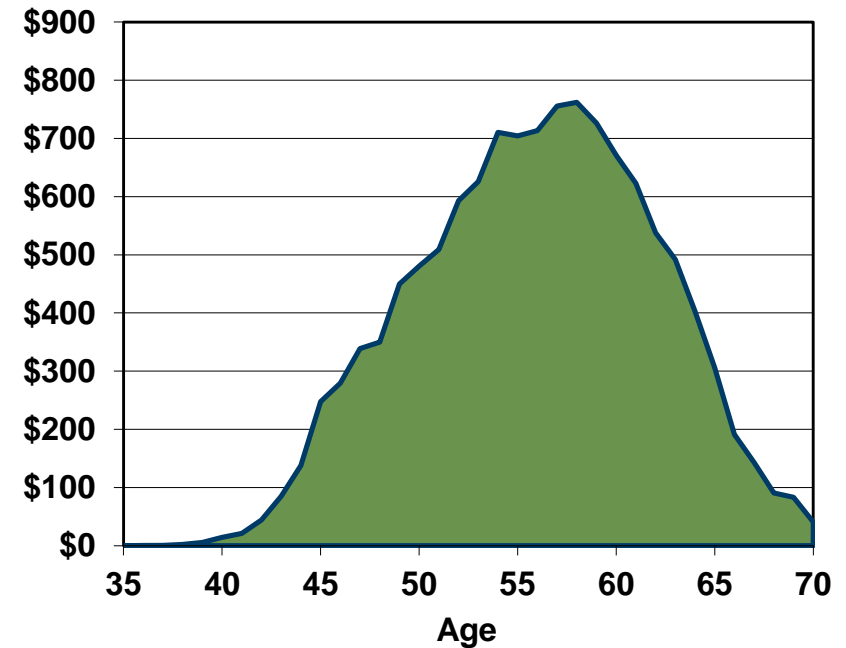
Every two years, the PERS Board adjusts contributions so that, over time, those contributions will be sufficient to fund the benefits earned, if earnings follow assumptions.

# Actuarial Liability by Benefit Program (Tier One/Two and OPSRP as of 12-31-15)

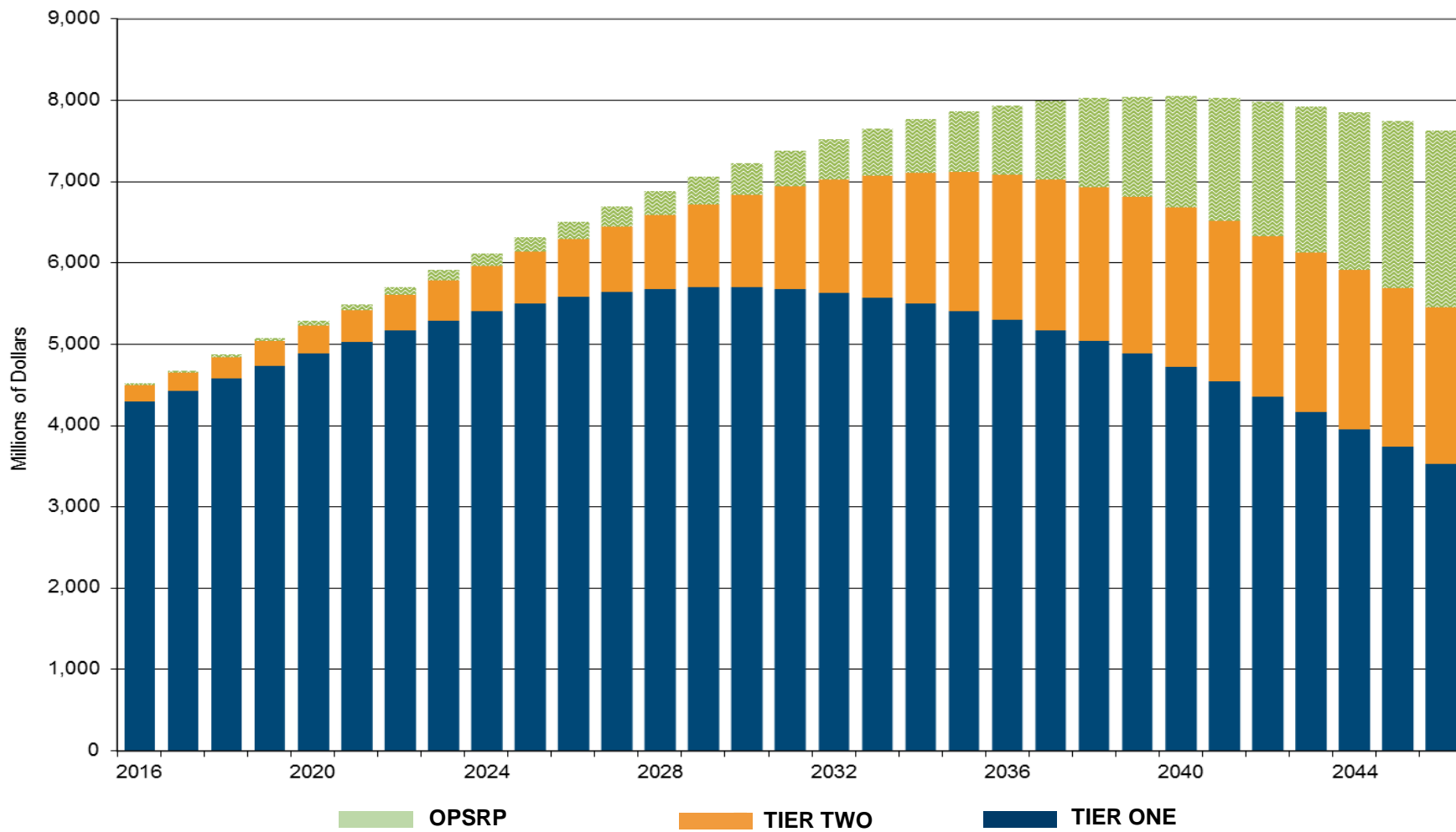
## Actuarial Liability by Member Category



## Age Distribution of Tier One Actives' Liability (\$ millions)



# Projected Benefit Payments by Program (as of 12-31-15)



Milliman presentation; July 29, 2016 Board meeting