Strategic Financial Opportunities

BACKGROUND

At the March 16, 2017 meeting, the Finance & Administration Committee engaged in a discussion about Oregon Public Employees Retirement System (PERS) and health benefits. This was part of an ongoing discussion between trustees and university leadership about managing significant cost drivers that affect university operations and tuition rates. The State of Oregon's retirement plan actuary reported in December 2015 that projected pension expenses for PERS Tier 1/Tier 2 and Oregon Public Service Retirement Plan (OPSRP) program will continue to increase until 2039. Oregon State's PERS net pension liability, to date, is approximately $323M. The committee asked staff to develop potential short- and long-term strategies that could help the university better manage this liability.

FINANCIAL OPTIONS

As follow-up**,** staff have been working in partnership with the university's financial advisor PFM to evaluate several financial options for managing PERS costs. One option evaluated is using the "Employer Incentive Fund" established in the 2018 legislative session. Last fall, Governor Kate Brown appointed a PERS Unfunded Actuarial Liability (UAL) Task Force to consider how the state might manage the pension plan's UAL, which is the main cost driver behind increasing employer rates. The unfunded liability consists of legacy costs that have accumulated due to a combination of past actions of the state. The PERS UAL Task Force published its final report on November 1, 2017, which identified several conceptual options for paying down the liability including establishing a matching fund for employer contributions made to side accounts held by PERS.

During the 2018 legislative session, Senate Bill 1566 established the Employer Incentive Fund. This fund will be used to match employer contributions to PERS side accounts on a one-time basis. Employers must apply for the matching fund by December 31, 2019 and commit to making a qualifying lump-sum payment of at least $25,000 no later than July 1, 2023. The maximum matching amount that may be reserved by a participating public employer is not to exceed the greater of five percent of the unfunded actuarial liability attributable to the employer or $300,000.

The Employer Incentive Fund is one of the financial options that will be presented for discussion with the Finance & Administration Committee at the April 5, 2018 meeting. Other financial options that will be presented include (a) issuing long-term debt to cover the liability, at a controllable cost to the university and (b) creating a pension reserve fund to smooth the pension expense costs over the long term.