

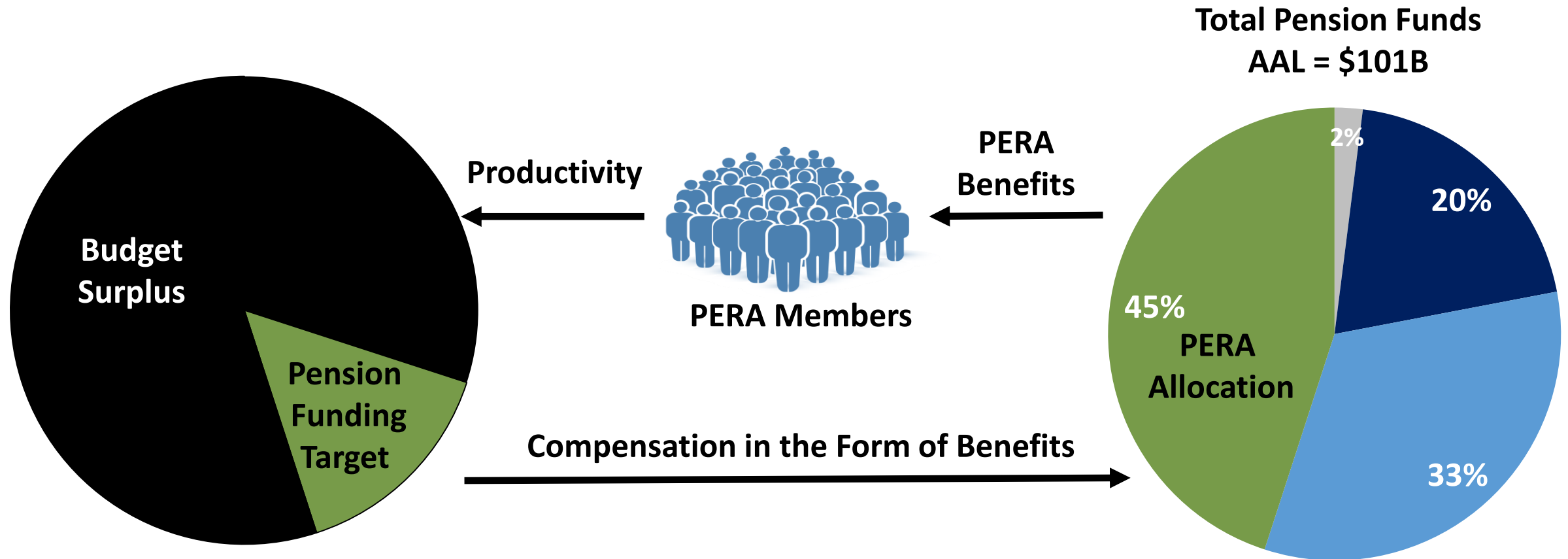
PERA Benefit Changes & Funding Proposal

The suggestions in this presentation do not represent a specific official PERA board position. However, they do reflect general long-term positions that our Board has adopted. Relevant long-term positions to this discussion are that the Board generally opposes favoring one group over another and if benefits are increased it should be accompanied with funding.

Doug Anderson, ASA, MAAA, Executive Director

March 6, 2023



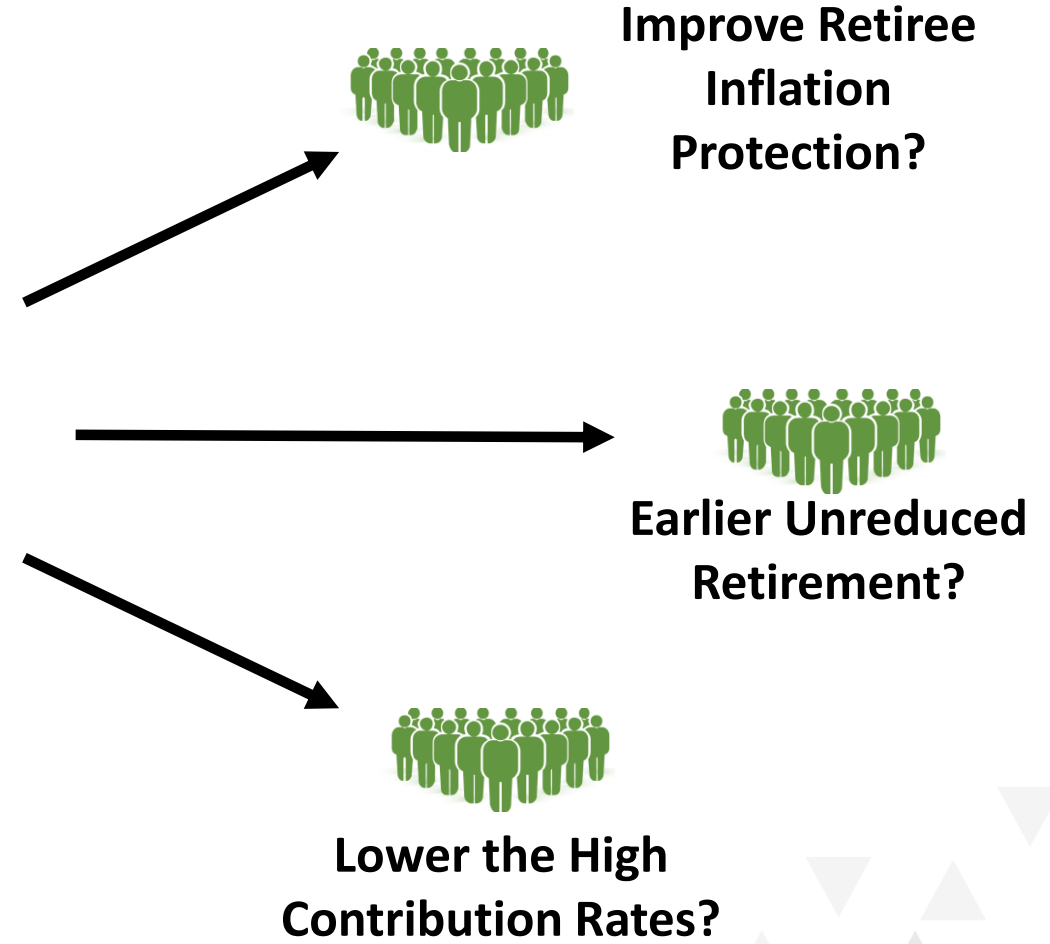


An active member's productivity is directly correlated to their compensation. Pension benefits are a form of compensation. ***The Actuarial Accrued Liability (AAL) is the amount of a member's compensation not yet paid to them for their past service.*** The value of each member's productivity and compensation can be measured.



150,000 Active
116,000 Retirees
153,000 Deferred

Allocate Evenly
to All?

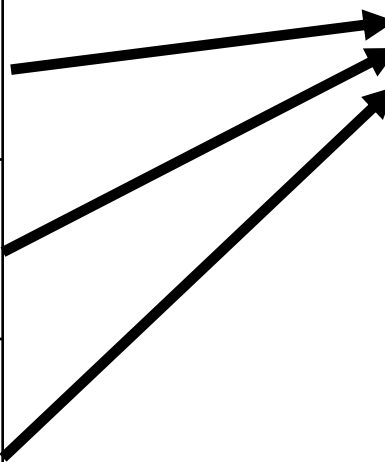


A One-time Pension Funding Target of \$500M, if spread evenly, would increase the value of every member's benefit (their AAL) by about 0.5%.

Metrics	Questions to Consider	General	Police & Fire	Correctional
Assumptions	Are the economic & demographic assumptions appropriate?	7.5% unreasonable	7.5% unreasonable & disability rate trend	7.5% unreasonable
Funding Status*	Is the Plan expected to achieve and maintain fully funded status?	81% now, 100% by 2045	86% now, 100% by 2082	95% now, but declining
Contributions*	Do employees & employers contribute the appropriate amount?	Contributions 161% of Normal Cost	Contributions 127% of Normal Cost	Contributions 102% of Normal Cost
Benefits	Do retirees have sufficient inflation protection?	50% CPI, 1.0% Min 1.5% Max	1% fixed (No SS)	100% CPI, 1.0% Min 2.5% Max

*Funding status and contribution metrics are based on a 7.0% investment return assumption.

If funds were provided to PERA’s Board for the purpose of increasing benefits, PERA staff would recommend increasing the postretirement annual increase formulas. A change in the postretirement annual increase formula provides value to current and future retirees.

	Current Formula		Our Long Term Goal
General Plan	50% of CPI 1.0% Min 1.5% Max		100% of CPI 0% Min 5% Max
Police & Fire Plan	Fixed 1%		
Correctional Plan	100% of CPI 1.0% Min 2.5% Max (Max drops to 1.5% if funding levels drop)		
			How We Get There 2018 – Change to formula with dials 2023 – Turn the dials with funding Future – Turn the dials further when it is affordable to do so

Yes but...It’s not immediately gratifying to actives. **Response**...It’s a retirement plan, it’s not meant to be.
 Yes but...There is no guarantee an increase won’t be reversed. **Response**...There are no guarantees, but reasonable assumptions and a strong funding commitment should reduce this risk.

Under the proposed allocation approach, assuming a \$500M Pension Funding Target, PERA would receive \$225M. The Next Step Formula shows what that level of funding can provide.

	Current Formula	Next Step Formula
General Plan (\$160M)	50% of CPI 1.0% Min 1.5% Max	50% of CPI 1.0% Min 1.75% Max
Police & Fire Plan (\$60M)	Fixed 1%	50% of CPI 1.0% Min 1.05% Max
Correctional Plan (\$5M)	100% of CPI 1.0% Min 2.5% Max (Max drops to 1.5% if funding levels drop)	100% of CPI 1.0% Min 2.5% Max (Funding could allow the cap to be restored if the funding level rebounds)

Yes but... This isn't very satisfying. **Response...** No it's not, but it does increase every member's benefit value by 0.5% (except maybe Correctional), and it sets a precedent for additional improvements when possible.

The Governor’s Proposal provides a one-time additional payment on January 1, 2024 equal to 2.5% minus the increase percentage otherwise applicable on January 1, 2024 times a member’s annual benefit. The Proposed Option B would add a repeating feature in the future (thus applicable to current and future retirees) whenever inflation is high.

	Governor’s Proposal	Option B
General Plan (\$160M)	Additional one-time amount of 1.0% of a member’s annual benefit on 1/1/2024	Governor’s Proposal for 1/1/2024 (Cost is \$18M General + \$10M P&F) plus A statutory change to add a provision for one-time increases of X% on January 1 st of each year that CPI (the Social Security Increase) is in excess of Y% <i>For example, a 1% increase each year that CPI is in excess of 5%. Our Actuary would need to determine what values for X and Y would be affordable for the amount of funds available</i>
Police & Fire Plan (\$60M)	Additional one-time amount of 1.5% of a member’s annual benefit on 1/1/2024	
Correctional Plan (\$5M)	No additional amount	

This is another formula tied to inflation with a dial that can be turned up in the future.

Metrics	Questions to Consider	General	Police & Fire	Correctional
Assumptions	Are the economic & demographic assumptions appropriate?	A change from 7.5% to 7.0% is appropriate		
Funding Status*	Is the Plan expected to achieve and maintain fully funded status?	<p align="center">No, these ideas do not help.</p> <p>The funding is targeted for new benefits, not unfunded existing benefits.</p>		
Contributions*	Do employees & employers contribute the appropriate amount?	<p align="center">Yes, these ideas help a little bit.</p> <p>Benefits are increased for all members without an increase in contribution rate.</p>		
Benefits	Do retirees have sufficient inflation protection?	<p align="center">Yes, these ideas help a little bit.</p> <p>This approach slightly increases inflation protection for over 400,000 active and retired members and sets a precedent for future similar steps.</p>		