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MEMORANDUM

Date: May 11, 2005  
To: Board of Commissioners  
From: Karen Artiaco, Risk and Benefits Manager  
Subject: Selection of PERS rates



As a participant in the Oregon Public Employee's Retirement System, Lane County pays a percentage of covered payroll to PERS each pay period. At the beginning of each State of Oregon biennium, PERS notifies each employer that participates in the System of their individual Employer Rate for the next two years. This rate is determined by the PERS actuary and takes into account the financial strength of the PERS system, as well as demographic history and predictions for the individual employer.

Lane County's current PERS Employer Rate is 5.46%. In addition to the Employer Rate, Lane County will pay 6% of payroll in FY 2005/2006 in order to meet the principle and interest payments on the \$70M in pension bonds that were issued in 2002. Lane County has also been setting aside an additional 4.66% of payroll in order build a PERS Litigation Reserve to pay for any changes to the 2003 legislation, or changes to the Lipscomb settlement, by the Oregon Supreme Court.

PERS has notified Lane County that our Employer Rate will increase by 8.88% as of July 1, 2005. In order to reduce the financial impact of this increase on employers, PERS is allowing two options:

**OPTION ONE - Implement the full amount of the increase as of July 1, 2005.** In FY 2004/2005, Lane County is charging departments 15.89% for our PERS employer costs. With the 8.88% increase, Lane County's rate as of July 1, 2005, would be 24.77%.

PERS Employer Rate	5.46%
Pension Bonds	5.77%
PERS Litigation Reserve	4.66%
TOTAL RATE	15.89%
INCREASE	8.88%
<b>NEW TOTAL RATE</b>	<b>24.77%</b>

**OPTION TWO – In order to reduce the financial impact of the large increase in Employer Rates, PERS is allowing employers to implement one-half of the rate increase as of July 1, 2005, and the additional one-half as of July 1, 2007.** The PERS actuary has calculated that delaying the cost of one-half of the increase to 2007 will cost an employer an addition .60% over a period of 20 years. In essence, PERS is "loaning" the money to employers, and the cost of that loan is 8% until the money is repaid. PERS' actuary has also made an early prediction of an additional 5% increase as of July 1, 2007 based upon other actuarial calculation and predictions. If Lane County were to take this option the rate would be calculated as:

JULY 1, 2005	
PERS Employer Rate	5.46%
Pension Bonds	6.00%
PERS Litigation Reserve	4.66%
<i>INCREASE</i>	4.44%
<i>Cost of Option 2</i>	.60%
<b>NEW TOTAL RATE</b>	<b>21.16%</b>

JULY 1, 2007	
PERS Employer Rate	5.46%
Pension Bonds	6.00%
PERS Litigation Reserve	4.66%
<i>INCREASE</i>	8.88%
<i>Cost of Option 2</i>	.60%
<i>Predicted Increase</i>	5.00%
<b>EST. NEW TOTAL RATE</b>	<b>30.60%</b>

Beyond those offered by PERS, Lane County has two additional options:

**OPTION THREE - The Board could choose to implement the full amount of the increase, but decide to eliminate the current charge to departments for the PERS Litigation Reserve.** The Supreme Court has upheld some features of the 2003 Legislation changes to PERS, and invalidated others. The Court is reputed to be close to issuing an opinion on the Lipscomb settlement. The PERS Board has indicated that it will consider using some combination of PERS Reserves and Employer Rate increases to pay for the effect of the Supreme County decisions on employer Unfunded Actuarial Liability. By June 1, 2003, Lane County will have reserved approximately \$5M to pay for any additional unfunded liability. The Board could decide that this amount is sufficient to meet any new liability, and stop accruing more. In this case Lane County's total PERS cost would be calculated as:

PERS Employer Rate	5.46%
Pension Bonds	6.00%
PERS Litigation Reserve	0.00%
<i>INCREASE</i>	8.88%
<b>NEW TOTAL RATE</b>	<b>20.34%</b>

NOTE: Total PERS Rate used in preparation of the proposed Lane County 2005/2006 budget is 20.72%

**OPTION FOUR – The Board could choose to implement one-half of the increase as of July 1, 2005, and the additional one-half of the increase on July 1, 2007, and also reduce or eliminate the current PERS Reserve charge to departments. In this case the rate would be calculated as:**

JULY 1, 2005	
PERS Employer Rate	5.46%
Pension Bonds	6.00%
PERS Litigation Reserve	0.00%
<i>INCREASE</i>	4.44%
<i>Cost of Option 2</i>	.60%
<b>NEW TOTAL RATE</b>	<b>16.50%</b>

JULY 1, 2007	
PERS Employer Rate	5.46%
Pension Bonds	6.00%
PERS Litigation Reserve	0.00%
<i>INCREASE</i>	8.88%
<i>Cost of Option 2</i>	.60%
<i>Estimated Increase</i>	5.00%
<b>EST. NEW TOTAL RATE</b>	<b>25.94%</b>

**RECOMMENDATION: Staff recommends Option 3.** By the end of FY 2004/2005, Lane County will have a PERS Litigation Reserve of approximately \$5M. We believe this will be sufficient to pay down an increase in the Unfunded Actuarial Liability due to the Supreme Court's interpretation of the issues involved in the 2003 PERS legislative changes, and the City of Eugene, et al, lawsuit. Ending the current 4.66% contribution to the Litigation Reserve can then be used to offset the effect of the 8.88% PERS Employer Rate increase so that the net increase to County personal services cost is 4.22%. An increase of 4.83% has already been factored into the FY2005/2006 budget.

By implementing the full amount of the increase, the County avoids paying the extra .60% "premium" for delaying the implementation of the second half of the increase for two years. Based upon our current payroll, the .60% amounts to an extra PERS contribution of about \$450,000 per year.

IN THE BOARD OF COUNTY COMMISSIONERS  
OF LANE COUNTY, OREGON

ORDER NO. 05-5-18-

- ) IN THE MATTER OF MAKING AN EMPLOYER
- ) CONTRIBUTION RATE ELECTION FOR THE
- ) PUBLIC EMPLOYEES RETIREMENT SYSTEM
- ) RATE FOR 2005 AND ESTIMATED FOR 2007

WHEREAS, as a participant in the Oregon Public Employees Retirement System (PERS), Lane County pays a percentage of covered payroll to PERS each pay period, and

WHEREAS, at the beginning of each State of Oregon biennium, PERS notifies each employer of their individual employer rate for the next two years, as determined by the PERS actuary after review of the financial strength of the PERS system and the demographic history and predictions for the individual employer, and

WHEREAS, due to higher than expected rate increases system-wide, the PERS Board decided to permit employers to phase in the rate increases over two biennia, and

WHEREAS, Lane County's current PERS employer rate is 5.46% of payroll, and

WHEREAS, PERS has notified Lane County that our employer rate will increase an additional 8.88% of payroll to a total rate of 14.34% of payroll as of July 1, 2005, and

WHEREAS, to reduce the financial impact of this increase, PERS is offering two options: 1) accept the rate increase to 14.34% beginning in July, 2005; or 2) implement one-half of the rate increase as of July 1, 2005 (which would make the rate 10.20%) and the additional one-half as of July 1, 2007 (which it is estimated would make the rate 14.94%, subject to change based upon court decisions, legislation or other factors affecting the PERS fund), and

WHEREAS, after due consideration of its options, and taking into account the additional payments Lane County makes in repayment of pensions bonds (6%), and previous amounts set aside as a PERS litigation reserve (4.66%), and

NOW, THEREFORE IT IS HEREBY ORDERED Lane County elects to accept the full rate increase to 14.34% as of July 1, 2005, and it is further

ORDERED that the County Risk and Benefits Manager is delegated authority to make this election on behalf of Lane County.

DATED this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

APPROVED AS TO FORM

Date 5/11/05 in and county

Teresa Atch  
OFFICE OF LEGAL COUNSEL

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Chair, Lane County Board of Commissioners