

Information Release of November 21, 2011

Q: What are the benefit calculation methods PERS uses? What affects benefit amounts under each method?

A: PERS uses up to three calculation methods to determine a benefit for a Tier One member and two methods for a Tier Two member. By law, the member is entitled to the calculation method that provides the highest benefit. OPSRP member benefits are only calculated under the Full Formula method (see the “Benefit Component Comparisons” chart at the end of this document for more detail).

Money Match

Under Money Match, the member’s account balance is matched at retirement by an equal amount from their employers’ reserves. The monthly benefit is the combined amount annuitized over the member’s estimated remaining life expectancy.

Under a Money Match retirement calculation, monthly benefit amounts are driven by the size of the member’s account balance and their age at retirement. Large account balances for Tier One members accumulated over time, particularly when investment returns generated high earnings during the 1980s and 1990s, combined with the “8 percent guarantee” in the low earnings years. Money Match benefits are higher for members who retire at an older age because their account balance is annuitized over a shorter remaining life expectancy. The “8 percent guarantee” is only applicable to Tier One members

Full Formula

The Full Formula Method multiplies three factors to compute a retirement benefit:

- Final average salary (generally, the member’s highest three years)
- Years and months of creditable service, and
- A factor of 1.67 percent for general service employees and 2.0 percent for police and firefighters for Tier One and Tier Two members (reduced to 1.5 percent and 1.8 percent respectively for OPSRP members).

For example, a Tier One member with a final average salary of \$6000 per month who retired after 30 years in a general service position would receive a benefit of \$3000 per month ($30 \times 1.67 = 50\%$, 50% of \$6000 is \$3000).

Factors that drive a Full Formula benefit are years of service and final average salary.

Formula Plus Annuity

The Formula Plus Annuity Method is available only to Tier One members and only if the member made contributions before August 21, 1981. It uses a formula similar to the Full Formula Method to compute the employer monthly portion of the benefit. Multiply 1 percent of the final average salary (FAS) for general service employees (1.35 percent for legislators, police officers, and firefighters) by the years of creditable service. Add the formula total to the monthly annuity payment that the member’s account balance provides, which is based on the account balance (with no employer match) and the member’s life expectancy.

Other Considerations

Tier One and Tier Two member benefits can be further influenced by whether the member participated in the Variable Annuity Program, where a portion of their pre-2004 member contributions are invested in a different way (all equity) than regular accounts (diversified portfolio). If the member's returns in the variable account were better than regular account returns, the member's benefit is adjusted upwards; if not, the benefit is adjusted downwards. Also, any member who retires before "normal" retirement age (that varies by benefit program) has his/her benefit actuarially reduced, since the benefit would be paid over a longer period than normal.

Q: What has been done to cap or reduce PERS benefits?

A: PERS benefits have been changed dramatically over the past 15 years, beginning with the elimination of the "8 percent investment return guarantee" for everyone hired on or after January 1, 1996. These changes are documented in the "History of PERS Benefit Caps and Reductions by Category" chart at end of this document. Changes at the federal level have also impacted PERS benefits, including the cap on salary for calculating benefits for anyone hired on or after January 1, 1996 (currently \$245,000).

PERS Reform legislation in 2003 further reduced benefits by diverting Tier One/Tier Two member contributions to Individual Account Program (IAP) accounts and capping Tier One earnings crediting to "freeze" Money Match benefits. Those reforms also created a reduced-benefit retirement program for new members hired after August 28, 2003 (the Oregon Public Service Retirement Plan – OPSRP). Before PERS Reform, PERS' liabilities were growing at approximately 10-12 percent annually. Since Reform, liabilities grow at about 3-4 percent annually.

Since PERS Reform, replacement ratios (benefit payment a retired member receives in retirement compared to his/her final salary) have declined. In 2000, the average member with 30 years of service retired with a benefit of 100 percent of final salary. For a member with 30 years of service who retired in 2009, the ratio fell to 77 percent. The average replacement ratio for all members who retired in 2009 was 53 percent of final salary compared to 68 percent in 2002. More replacement ratio results are reported in [PERS By The Numbers](#) on the PERS website.

Q: How does the cost-of-living adjustment (COLA) affect benefits over time?

A: Benefit recipients receive an annual cost-of-living adjustment (COLA). The COLA is based on the annual increase in the cost-of-living in Oregon and is capped at 2 percent. Over time, the COLA has a compounded effect that increases benefit amounts to keep up with inflation. For example, the monthly benefit of someone who retired in 1991 would be approximately 50% higher today because of the COLA. For more information regarding the impact of inflation and the COLA on the [purchasing power of PERS retired members](#), see the most recent study available on the PERS website.

Q: There is a chart in [PERS By The Numbers](#) that shows fewer benefit recipients receiving more than \$14,000 monthly than the data shows in the information release of November 21, 2011. Why is there a difference?

A: The data shown in PERS By The Numbers is from December 2010 while the November 21, 2011 information release used benefit payments from October 1, 2011, which reflects the 2011 COLA. There are also some benefit type exclusions in PERS By The Numbers as noted in the chart. Finally, the November 21, 2011 information release contains benefit information for members who have retired in 2011, while the PERS By The Numbers chart shows only members who had retired through 2010.

PERS Benefit Component Comparisons

The primary components and differences among the PERS Tier One and Tier Two programs, the Oregon Public Service Retirement Plan (OPSRP) Pension Program, and the Individual Account Program (IAP) are shown below. Tier One covers members hired before January 1, 1996; Tier Two covers members hired between January 1, 1996 and August 28, 2003; and OPSRP covers members hired on or after August 29, 2003. The IAP contains all member contributions (6% of covered salary) made on and after January 1, 2004.

	Tier One	Tier Two	OPSRP Pension	IAP
Normal retirement age	58 (or 30 yrs); P&F = age 55 or 50 w/25 yrs service	60 (or 30 yrs); P&F = age 55 or 50 w/25 yrs service	65 (58 w/30 yrs); P&F = age 60 or 53 w/25 yrs service	55
Early retirement	55 (50 for P&F)	55 (50 for P&F)	55, if vested; (50 for P&F if eligible)	55
Regular account earnings	Guaranteed assumed rate annually (currently 8%)	No guarantee; market returns	N/A; no member account	No guarantee; market returns
Variable account earnings	Market returns on 100% global equity portfolio	Market returns on 100% global equity portfolio	N/A; no member account	N/A
Retirement calculation methods	Money Match, Full Formula, or Formula + Annuity	Money Match or Full Formula	Formula	Six account distribution options
Full Formula benefit factor	1.67% general; 2.00% P&F	1.67% general; 2.00% P&F	1.50% general; 1.80% P&F	N/A
Formula + Annuity benefit factor	1.00% general; 1.35% P&F	N/A	N/A	N/A
Tax remedy benefit increase	If eligible, higher of 9.89% on service time before Oct. 1, 1991 or 4.0% or less based on total service time	No tax remedy provided	No tax remedy provided	No tax remedy provided
Lump-sum vacation payout				
Included in covered salary (6%)	Yes	Yes	No	Yes for Tier One and Tier Two; no for OPSRP
Included in FAS	Yes	No	No	N/A
Unused sick leave included in FAS	Yes	Yes	No	N/A
Vesting	Contributions in each of 5 yrs or active member at age 50	Contributions in each of 5 yrs or active member at age 50	5 yrs qualifying service or normal retirement age	Immediate
2% maximum annual cost-of-living adjustments after retirement	Can retire through July 1 and receive maximum COLA for the year	Can retire through July 1 and receive maximum COLA for the year	COLA prorated in year of retirement based on retirement date	N/A

P&F = police and firefighters; FAS = final average salary; COLA = cost-of-living adjustment; N/A = not applicable

Note: PERS uses up to three methods to calculate Tier One and Tier Two retirement benefits: Full Formula, Formula + Annuity (for members who made contributions before August 21, 1981), and Money Match. PERS uses the method (for which a member is eligible) that produces the highest benefit amount. OPSRP Pension benefits are based only on a formula method.

History of PERS Benefit Caps and Reductions by Category

Category	Year	Action	Affected Members
Retirement Age/Vesting	1996	Increased retirement age for new members from 58 to 60 (General Service)	Tier Two
	2003	Increased retirement age from 60 to 65 (General Service) 55 to 60 (Police & Fire)	OPSRP
	2003	Increased vesting from 5 years or age 50 to 5 years or age 65 (General Service) or age 60 (Police & Fire)	OPSRP
Benefit Calculation/ Formula	1981	Eliminated Formula + Annuity benefit calculation method	Tier One
	1991	Imposed state income tax on PERS benefits	All
	2003	Decreased Full Formula benefit pension factor (General Service: 1.67 to 1.50; Police & Fire 2.00 to 1.80)	OPSRP
	2003	Eliminated Money Match benefit calculation method	OPSRP
	2003	Redirected member contributions to freeze Money Match (MM) benefit levels	Prospective MM retirees
	2003	Required regularly updated mortality assumptions and actuarial factors	All
	2005	Adjusted member accounts and benefit payments to recapture 1999 earnings over-crediting	Tier One
Final Average Salary	1996	Excluded lump sum vacation payouts from final average salary	Tier Two
	2003	Eliminated lump sum vacation payouts from subject salary	OPSRP
	2003	Eliminated accumulated sick leave from final average salary	OPSRP
Investment Risk Allocation	1976	Gain Loss Reserve established to "self-fund" assumed earnings rate crediting	Tier One
	1996	Eliminated guaranteed return on regular accounts for new members	Tier Two
	2000	Eliminated 'Last Known Rate' member account crediting guarantee	Tier One
	2003	Required members to self-fund guaranteed return on member accounts	Tier One
	2003	Subjected all future member contributions made on or after 01/01/04 to actual earnings and losses with no guarantee	All
Retiree Health Benefits	1989	Capped Medicare premium subsidy at \$60 per month	Tier One/Two
	2003	Eliminated post retirement health insurance premium subsidies	OPSRP
Cost-of-Living Adjustment (COLA)	1973	Capped COLA at actual inflation rate or 2%, whichever is less	All retirees
	2003	Pro-rated first year COLA	OPSRP
	2003	Eliminated COLA 'bank' carryover	OPSRP