Three Rivers School District
Quality Education Runs Deep

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Memo

To: TRSD Board of Directors

CC: Dave Valenzuela

From: Lisa Cross

Date: 10/7/20

Re: PERS Reform Court Decision & PERS Rates for 2021-23

PERS Reform Court Decision

Senate Bill 1049 was passed by the legislature in 2019 and included several reforms to the Public Employees Retirement System (PERS). The system changes were developed to reduce the Unfunded Actuarial Liability (UAL) projected to increase employer-paid payroll rates. Reforms include the following:

- No limitation for retirees electing work beyond separation of employment for a 5-year period (effective 1/1/2020)
- Extending the amortization of the liability period (effective beginning the 2021-23 biennium)
- $195,000 annual salary cap for purposes of calculating final average salary in the benefit formula (on earnings after 1/1/2020)
- Redirection of the employee IAP contributions to a stability fund:

Starting July 1, 2020, SB 1049 requires that members earning more than $2,500 per month have a portion of their 6% IAP contributions redirected to a new Employee Pension Stability Account (EPSA). Funds from EPSA will be used to pay for part of pension benefits at retirement. The IAP Redirect is in effect when the PERS system is less than 90% funded.

The portion of the 6% redirected to EPSA depends on membership type:
Tier One/Two – 2.5%; OPSRP - .75%

It is the IAP redirect initiative and the annual salary cap that sparked litigation regarding a change to the pension benefit. The court has determined that both provisions are lawful under the rules of the system and will remain in place as adopted.

PERS Rates for 2021-23

	2019 – 2021			2021 – 2023		
	Tier 1 / 2	**OPSRP**	**P&F**	**Tier 1 / 2**	**OPSRP**	**P&F**
PERS	20.80%	15.35%	19.98%	16.24%	13.13%	17.49%
ER Pickup	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Debt Svc	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%
Total PERS	36.2%	30.75%	35.38%	31.64%	28.53%	32.89%

There are three key reasons for the reductions:

- Legislation from 2019 session to extend the amortization and impose the IAP redirect, as noted above, dramatically reduced rates for employers. *However, they will only serve to increase the UAL over time by delaying the repayment into the future.*
- Strong investment performance (above expectations) for 2019.
- Most district's with a side account (TRSD issued bonds in 2004) realize better savings than districts who did not.

Hopefully this is the start of a positive change for the future. I feel obligated to note that depending on what happens in the market this year and next, these reductions may well be reversed. These topics and recommendations for future savings will be addressed during the budget process.