

Oregon Public Employees Retirement System

Retiree Health Insurance Premium Account
Single-Employer Other Postemployment Benefits (OPEB) Plan
Schedule of OPEB Amounts

As of and for the Fiscal Year Ended June 30, 2019



Certified
Public
Accountants

Oregon Public Employees Retirement System
Retiree Health Insurance Premium Account Single-Employer OPEB Plan
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Independent Auditor's Report

To the Honorable Kate Brown
Governor of Oregon

To the Public Employees Retirement Board of the
Oregon Public Employees Retirement System
Tigard, Oregon

We have audited the columns titled net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and OPEB expense (specified column totals) included in the accompanying schedule of Other Postemployment Benefits (OPEB) amounts (schedule) of the Oregon Public Employees Retirement System (System) Retiree Health Insurance Premium Account (RHIPA) Single-Employer Defined Benefit OPEB Plan (Plan), as of and for the fiscal year ended June 30, 2019, and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the specified column totals included in the schedule of OPEB amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures for the specified column totals included in the schedule of OPEB amounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the specified column totals included in the schedule of OPEB amounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the specified column totals included in the schedule of OPEB amounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the specified column totals included in the schedule of OPEB amounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedule referred to above presents fairly, in all material respects, the net OPEB liability, the total deferred outflows of resources, total deferred inflows of resources, and OPEB expense for the Oregon Public Employees Retirement System Retiree Health Insurance Premium Account (RHIPA) Single-Employer Defined Benefit Other Postemployment Benefits Plan as of and for the fiscal year ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with standards generally accepted in the United States of America, the financial statements of the fiduciary activities and the proprietary activities of the Oregon Public Employees Retirement System as of and for the fiscal year ended June 30, 2019, and our report thereon dated December 16, 2019, expressed unmodified opinions on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the System's management, the Audit Committee, the Public Employees Retirement Board, the State of Oregon and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Sacramento, California
February 24, 2020

Oregon Public Employees Retirement System Retiree
Health Insurance Premium Account
Single-Employer Other Postemployment Benefits Plan
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| | | Deferred Outflows of Resources | | | Deferred Inflows of Resources | | | OPEB Expense |
|------------------------|----------------|--------------------------------|------------------------|--------------------------------------|--|---|-------------------------------------|--------------------|
| Employer Number | Employer Name | Net OPEB Liability | Changes in Assumptions | Total Deferred Outflows of Resources | Differences between Expected and Actual Experience | Net Difference between Projected and Actual Investment Earnings | Total Deferred Inflows of Resources | Total OPEB Expense |
| 1000 | State Agencies | \$ 25,331,334 | \$ 303,472 | \$ 303,472 | \$ 2,407,723 | \$ 91,536 | \$ 2,499,259 | \$ 3,370,538 |
| Total for All Entities | | \$ 25,331,334 | \$ 303,472 | \$ 303,472 | \$ 2,407,723 | \$ 91,536 | \$ 2,499,259 | \$ 3,370,538 |

The accompanying notes are an integral part of this schedule.

Oregon Public Employees Retirement System
Retiree Health Insurance Premium Account
Single-Employer Other Postemployment Benefits Plan
Notes to the Schedule of OPEB Amounts
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Note 1 - Description of Plan

A. Organization

Oregon Public Employees Retirement System (PERS or the System) administers a single-employer defined benefit Other Postemployment Benefits (OPEB) plan (Plan) for units of state government (Employer), with the state as one employer. Plan assets may be used to pay the benefits of the employees of any state agency that provides OPEB through the Plan. Contributions are mandatory for each state agency. As of June 30, 2019, there are 109 participating state agencies.

PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Public Employees Retirement Board (Board) to administer and manage the System. All members of the Board are appointed by the Governor and confirmed by the State Senate. The Governor designates the chairperson. One member must be a public employer manager or a local elected official, one member must be a union-represented public employee or retiree, and three members must have experience in business management, pension management, or investing.

B. Plan Membership

The Retiree Health Insurance Premium Account (RHIPA) was established by ORS 238.415 and requires the Board on or before January 1 or each year to calculate the average difference between the health insurance premiums paid by retired state employees and health insurance premiums paid by active state employees. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service with a state agency in the System at the time of retirement, or (2) are receiving a disability pension calculated as if they had eight or more years of qualifying service but are not eligible for federal Medicare coverage. RHIPA was closed to new entrants hired on or after August 29, 2003.

As of June 30, 2019, retired RHIPA plan participants receiving benefits totaled 905. As of June 30, 2019, there were 13,982 active members who meet the requirements to receive RHIPA benefits when they retire. Inactive members are not eligible for these benefits.

Note 2 - Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 75

Employers participating in the Plan are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75).

The requirements of this statement incorporate provisions intended to reflect the effects of transactions and events related to OPEB in the measurement of employer liabilities for OPEB and recognition of OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB.

The Schedule of OPEB Amounts under GASB 75 report prepared by PERS' third-party actuaries, along with PERS audited financial statements, provide the required information for financial reporting related to PERS OPEB provided through the Plan as of and for the fiscal year ended June 30, 2019 (the measurement period).

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Basis of Accounting

The accompanying schedule of OPEB amounts was prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, PERS adheres to the reporting requirements established by the GASB.

Use of Estimates in the Preparation of the Schedule

The preparation of the schedule of OPEB amounts in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

Note 3 - Net OPEB Liability and Actuarial Assumptions and Methods

The components of the employer's net OPEB liability, in millions, are as follows:

| Net OPEB - RHIPA (Asset) (in Millions) | | |
|---|-----------|--------------------|
| As of June 30, 2019 | | |
| Total OPEB - RHIPA Liability | \$ | 72.0 |
| Plan Fiduciary Net Position | | <u>46.7</u> |
| Employer's Net OPEB - RHIPA Liability | \$ | <u>25.3</u> |
| Plan net position as a percentage of | | |
| Total OPEB - RHIPA Liability | | 64.9 % |

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Actuarial Methods and Assumptions

| Actuarial Methods and Assumptions | |
|--|--|
| | RHIPA |
| Valuation date | December 31, 2017 |
| Measurement date | June 30, 2019 |
| Experience Study | 2016, published July 26, 2017 |
| Actuarial assumptions: | |
| Actuarial cost method | Entry Age Normal |
| Inflation rate | 2.50 per cent |
| Long-term expected rate of return | 7.20 per cent |
| Discount rate | 7.20 per cent |
| Projected salary increases | 3.50 per cent |
| Retiree healthcare participation | 8-14 Years of Service: 10.0% 15-19 Years of Service: 18.0% 20-24 Years of Service: 23.0% 25-29 Years of Service: 29.0% 30+ Years of Service: 38.0% |
| Healthcare cost trend rate | Applied at beginning of plan year, starting with 7.5% for 2017, decreasing to 5.2% for 2024, increasing to 6.2% for 2029, and decreasing to an ultimate rate of 4.2% for 2093 and beyond. |
| Mortality | <p>Healthy retirees and beneficiaries: RP-2014 Healthy annuitant, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: RP-2014 Employees, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation.</p> <p>Disabled retirees: RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale.</p> |

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2016 Experience Study, which reviewed experience for the four-year period ended on December 31, 2016.

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Discount Rate

The discount rate used to measure the total OPEB liability of the Plan was 7.20 percent. The projection of cash flows used to determine the discount rate assumed that contributions are made at the contractually required rates, as actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2017 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model. For more information on the Plan's portfolio, assumed asset allocation, and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS' audited financial statements at:

<https://www.oregon.gov/pers/Documents/Financials/CAFR/2019-CAFR.pdf>

Depletion Date Projection

GASB 75 generally requires that a blended discount rate be used to measure the total OPEB liability (the actuarial accrued liability calculated using the individual entry age normal cost method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's fiduciary net position (fair value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the fiduciary net position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 75 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 75 (paragraph 39) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for the OPEB Plan:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100 percent funded position by the end of the amortization period if future experience follows assumption.
- GASB 75 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

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Based on these circumstances, it is our third-party actuary's opinion that the detailed depletion date projections outlined in GASB 75 would clearly indicate that the fiduciary net position is always projected to be sufficient to cover benefit payments and administrative expenses.

Deferred Inflows of Resources and Deferred Outflows of Resources

Differences between expected and actual experience and changes in assumptions are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. The Employer is required to recognize OPEB expense based on the balance of the closed period "layers" attributable to each measurement period. The average remaining service lives determined as of the beginning of each measurement period are described below:

Fiscal Year ended June 30, 2019 – 6.7 years

Fiscal Year ended June 30, 2018 – 6.9 years

Fiscal Year ended June 30, 2017 – 7.2 years

The difference between projected and actual earnings is amortized over a closed five-year period.

Deferred inflows of resources and deferred outflows of resources are calculated at the Plan level. For the measurement period ended June 30, 2019, there was:

- A difference between expected and actual experience.
- A difference due to changes of assumptions.
- A difference between projected and actual earnings. One-year's amortization is recognized in the employer's total OPEB expense for the measurement period.

Employer contributions made after the measurement date are not reflected in the schedule of OPEB amounts. Appropriate treatment of such amounts is the responsibility of the Employer.

If you have questions about this report or need additional financial information, please contact the Financial and Administrative Services Division Administrator at PO Box 23700, Tigard, Oregon 97281-3700.