

2007 Regular Legislative Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 2280 **STATUS:** A Engrossed
SUBJECT: Equal to or better reviews of retirement benefits of local government police and fire employees
GOVERNMENT UNIT AFFECTED: Public Employees Retirement System, local governmental units
PREPARED BY: Dallas Weyand
REVIEWED BY: Adrienne Sexton
DATE: May 4, 2007

	<u>2007-2009</u>	<u>2009-2011</u>
EXPENDITURES: See Comments		

EFFECTIVE DATE: January 1, 2008

GOVERNOR'S BUDGET: This bill is not anticipated by the Governor's recommended budget.

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

COMMENTS: Included in the Public Employees Retirement System (PERS) reform legislation of 2003 was a requirement that PERS conduct "equal to or better" studies every two years. Prior to that legislation, PERS was required to conduct "Equal to or better" studies as it deemed necessary or appropriate. This bill would remove the requirement to conduct the studies every two years, but require PERS to adopt rules that would provide guidance as to when the studies would be required.

Local governmental units that do not provide police and fire employees retirement benefits under PERS are required, by law, to provide retirement benefits that are "equal to or better" than those provided under PERS. PERS is required to conduct "equal to or better" studies to determine whether the retirement benefits provided by local governmental units actually are equal to or better than those provided by PERS. The studies are conducted by actuarial firms selected by PERS. The costs of the studies are paid by the local governmental units. Biennial studies are costly to employers and the measure will relieve the employer of these biennial costs while requiring objective rules for determining when these costs should be incurred. The bill also requires the "equal to or better" study to compare local governmental unit benefits to the similar class of PERS members (Tiers 1 and 2 and OPSRP). While these studies would be more costly to local governmental units, their periodic cost is expected to be more than offset from the removal of the biennial study requirement.

Employers whose benefits are determined not to be equal or better than PERS benefits have 180 days to provide benefits equal to or better than the comparable PERS members. If employers fail to do so, the PERS Board shall require that those local governmental unit employees become members of PERS. The bill is silent as to what PERS benefits those employees would be entitled to. In the event an employer should fail the test and not change its plan, PERS would bring the affected group of employees into the system as OPSRP members. This could trigger yet another lawsuit against PERS by employees whose benefits were measured against Tiers 1 and 2 members, but who then came into PERS under OPSRP. Should it be determined that the employees must be granted benefits comparable to the PERS members

against which their benefits were measured, this would have the effect of bringing in new members as Tier 1 or Tier 2 members. Tiers 1 and 2 are currently closed and the cost of bringing in new members would likely have to be borne by the local governmental employers.