

**SB 822**  
**Relating to Public Employee Retirement**

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Senate Bill 822 modifies the cost-of-living adjustment and supplementary tax remedy payments for non-Oregon residents under the Public Employees Retirement System and directs the PERS Board to recalculate employer contribution rates for the 2013-15 biennium. The measure has an emergency clause and is effective on passage.

The measure is estimated to produce \$460 million of system wide saving, according to an actuarial analysis. In addition, a budget note included in the budget report directs the PERS Board to undertake administrative actions that would further reduce employer contribution rates by up to 1.9% for system wide savings of approximately \$350 million.

On a system wide basis, 2013-15 employer net rates were scheduled to increase from 10.8% to 15.7% or an increase of 4.9% of covered payroll. The combined savings from this measure and the PERS Board's administrative actions would reduce that increase by up to 4.4% and produce an estimated \$810 million in system wide savings for state agencies, universities, judges, school districts, and participating cities, counties, and special districts.

The measure provides \$1.01 million in Other Funds expenditure limitation and two limited duration positions (1.50 FTE) for PERS to implement the measure.

The Capital Construction Subcommittee recommends SB 822 be amended and reported out do pass, as amended.

**77<sup>th</sup> OREGON LEGISLATIVE ASSEMBLY – 2013 Session  
BUDGET REPORT AND MEASURE SUMMARY**

**JOINT COMMITTEE ON WAYS AND MEANS**

**MEASURE: SB 822-A**

**Carrier – House: Rep. Buckley**

**Carrier – Senate: Sen. Devlin**

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**Action:** Do Pass as Amended and Be Printed A-Engrossed

**Vote:**

House

Yeas:

Nays:

Exc:

Senate

Yeas:

Nays:

Exc:

**Prepared By:** John Borden, Legislative Fiscal Office

**Reviewed By:** Daron Hill, Legislative Fiscal Office

**Meeting Date:** April 5, 2013

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Agency

Public Employees Retirement System

Biennium

2013-15

## **Budget Summary**\*

	2011-13 Legislatively Approved Budget <sup>(1)</sup>	2013-15 Current Service Level	2013-15 Committee Recommendation	Committee Change from 2011-13 Leg. Approved	
				\$\$ Change	% Change
Other Funds	\$ 0	\$ 0	\$ 1,008,151	0	
Total	\$ 0	\$ 0	\$ 1,008,151	0	

## **Position Summary**

Authorized Positions	0	0	2	00
Full-time Equivalent (FTE) positions	00.00	0.00	1.50	00.00

(1) Includes adjustments through December 2012.

\* Excludes Capital Construction expenditures

## **Summary of Revenue Changes**

Revenue sources for the Public Employees Retirement System (PERS) are investment earnings, employer contributions, member contributions, and fees. Under this measure, and the associated budget note, employer contributions would decline by an estimated \$810 million system wide for the 2013-15 biennium.

The PERS operating budget is funded primarily by revenue transfers from the retirement programs. This measure would increase the revenue transfer by \$1.01 million.

## **Summary of Capital Construction Subcommittee Action**

The measure modifies cost-of-living adjustment and supplementary tax remedy payments for non-Oregon residents under Public Employees Retirement System (PERS) and directs the PERS Board to recalculate employer contribution rates for the 2013-15 biennium. The measure has an emergency clause and is effective on passage.

The measure contains three primary provisions impacting the three primary benefit programs, which include Tier 1, Tier 2, and Oregon Public Service Retirement Plan. The Individual Account Program is not impacted by the measure. The measure reduces benefit payments for current and future retirees. Additional employer rate(s) reductions would be achieved by an administrative action of the PERS Board.

The measure modifies the cost-of-living adjustment (COLA) under the Public Employees Retirement System. In the first year of the 2013-15 biennium, the COLA rate limitation will drop from 2% to 1.5% for all retirees. Thereafter, the COLA rate will be based on a graduated (decreasing) COLA based on the level of a retiree's benefit plus a fixed payment at various benefit levels above \$20,000, as summarized in the following table:

Annual Benefit Amount	Cost-of-Living Adjustment (beginning July 1, 2014)
First \$20,000	2.00%
\$20,000 to \$40,000	1.50%
\$40,000 to \$60,000	1.00%
\$60,000 or more	0.25%

The measure eliminates the increased retirement benefits resulting from Oregon income taxation of payments if the person receiving payments does not pay Oregon income tax on those benefits and is not an Oregon resident. Benefit reductions will occur for approximately 15% of current and future PERS members, according to PERS estimates (18,000 retirees and beneficiaries). This provision of the measure is effective on passage; however, this fiscal impact assumes an implementation date of July 1, 2013. PERS assumes full implementation after January 1, 2014.

The measure directs the PERS Board to recalculate all employer contribution rates, which is assumed to include 2013-15 rates effective for July 1, 2013. Employer contribution rates are set by the five-member PERS Board and are calculated as a percentage of an employer's PERS covered payroll. A recalculation of 2013-15 employer rates is necessary as those rates were previously established by the Board in October of 2012 as part of the Board's regular rate setting schedule.

The actuarial analysis of the measure commissioned by PERS estimates that system wide accrued liabilities will be reduced by \$2.6 billion resulting in a reduction to 2013-15 employer contribution rates by 2.5%. PERS estimates that the measure will generate system wide savings of \$460 million for the 2013-15 biennium, which is 2.5% of the estimated \$18.4 billion in system wide payroll costs for the biennium. A similar percentage of payroll is expected to be saved in future biennia.

With assets of \$50.2 billion (including employer side accounts) and liabilities of \$61.2 billion, PERS had approximately \$11 billion in unfunded liabilities (82% funded) as of December 31, 2011. The unfunded liability has since been reduced by approximately \$2.2 billion due to 2012 investment earnings. This measure is estimated to reduce the actuarial unfunded liability by an additional \$2.6 billion.

The Subcommittee approved a budget note directing the PERS Board to undertake the following administrative action:

**Budget Note:**

Section 18 of SB 822 directs the Public Employees Retirement System (PERS) Board to "recalculate the contribution rates of all employers, pursuant to ORS 238.225, to reflect the provisions of this 2013 Act." In addition to any employer rate increase that would be

deferred in the 2013-15 biennium under the PERS Board's October 2012 rate smoothing methodology, the Legislature directs the PERS Board to undertake additional administrative actions to further reduce each PERS employer's rate by up to 1.9% of covered payroll to mitigate rate increases for the 2013-15 biennium, to the extent such administrative actions conform to sound accounting and actuarial practices, as determined by the PERS Board in consultation with the system's actuaries.

PERS is directed to report to the Joint Committee on Ways and Means during the 2014 session on the administrative actions undertaken by the PERS Board and an estimate of the amount of system wide savings resulting from the actions.

The PERS Board administrative actions are estimated to produce \$350 million in one-time savings for the 2013-15 biennium.

On a system wide basis, 2013-15 employer net rates were scheduled to increase from 10.8% to 15.7% or an increase of 4.9% of covered payroll. The combined savings from this measure and the PERS Board's administrative actions would reduce that increase by up to 4.4% and produce an estimated \$810 million in system wide savings for state agencies, universities, judges, school districts, and participating cities, counties, and special districts.

State agency General Fund savings are estimated to be \$78.6 million, \$2.0 million Lottery Fund, \$71.9 million Other Funds, and \$31.1 million Federal Funds. The state General Fund savings for local school districts and community colleges is estimated to be \$195.9 million and \$8.7 million, respectively.

The Subcommittee approved \$1.01 million Other Funds expenditure limitation to implement the measure. This includes the establishment of one Limited Duration Program Analyst position (1.00 FTE) and one Limited Duration Retirement Councilor 1 position (0.50 FTE)(\$207,362); temporary employees (\$145,468); overtime (\$82,188); information technology service consulting (\$425,000); actuarial services (\$100,000); and other services and supplies expenses (\$48,133). The revenue source is from a transfer from the Oregon Public Employees Retirement Fund. Expenditure limitation for other potential agency expenses would need to be requested from either the Emergency Board or the Legislature, if needed.

The Oregon Judicial Department may have costs beyond what is currently budgeted for the appointment of a Special Master, if an expedited judicial review is sought. The Department of Revenue is expected to have a minimal fiscal impact. There is no fiscal impact to the Department of Justice.

**DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION**

**SB 822 A**

Oregon Public Employees Retirement System  
 John Borden, Legislative Fiscal Office (503.986.1842)

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
<u>SUBCOMMITTEE ADJUSTMENTS (from CSL)</u>									
SB 822-A									
Personal Services	\$ -	\$ -	\$ 435,018	\$ -	\$ -	\$ -	\$ 435,018	2	1.50
Services and Supplies	\$ -	\$ -	\$ 573,133	\$ -	\$ -	\$ -	\$ 573,133	0	0.00
<b>TOTAL ADJUSTMENTS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,008,151</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,008,151</b>	<b>2</b>	<b>1.50</b>

**PROPOSED AMENDMENTS TO  
SENATE BILL 822**

1 On page 1 of the printed bill, line 3, after the semicolon, insert “limiting  
2 expenditures;”.

3 On page 12, after line 15, insert:  
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5 **“EXPENDITURE LIMITATION**

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7 **“SECTION 20. Notwithstanding any other law limiting expenditures,  
8 the amount of \$1,008,151 is established for the biennium beginning July  
9 1, 2013, as the maximum limit for payment of expenses from fees,  
10 moneys or other revenues, including Miscellaneous Receipts, but ex-  
11 cluding lottery funds and federal funds, collected or received by the  
12 Public Employees Retirement System for administrative and operating  
13 expenses incurred in implementing the provisions of this 2013 Act.”.**

14 In line 19, delete “20” and insert “21”.

15 In line 25, delete “21” and insert “22”.  
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