FISCAL IMPACT OF PROPOSED LEGISLATION **Measure: SB 861**

Seventy-Seventh Oregon Legislative Assembly – 2013 1st Special Session
Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description: Modifies the cost-of-living adjustment (COLA) under the Public Employees Retirement System (PERS) beginning on or after July 1st, 2014; Provides temporary administrative authority to the PERS Board to pay one-time supplemental payments to PERS benefit recipients that receive a COLA beginning July 1st, 2014; Supplemental payment authority repeals on December 31st, 2019 and are to be paid from the PERS Contingency Reserve Account; Directs PERS Board to report on or before September 30, 2018 on its recommendations related to the statutory COLA adjustment and continuation of the administrative supplemental payment; Provides for expedited review by the Oregon Supreme Court; Declares emergency, effective on passage.

Government Unit(s) Affected: Public Employees Retirement System; Oregon Judicial Department; and Department of Justice

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.

Analysis: The measure modifies the cost-of-living adjustment (COLA) under the Public Employees Retirement System (PERS) beginning on or after July 1st, 2014 and provides temporary administrative authority to the PERS Board to pay one-time supplemental payments to PERS benefit recipients that receive a COLA beginning July 1st, 2014. The measure directs the PERS Board to report on or before September 30, 2018 on its recommendations related to the statutory COLA adjustment and continuation of the administrative supplemental payment. The measure provides for expedited review by the Oregon Supreme Court. The measure declares emergency, effective on passage.

The current law COLA rate of 1.5% for the first year of the 2013-15 biennium remains unchanged by the measure. The following table summarizes the measure's changes for the second year of the 2013-15 biennium, as compared to current law.

COLA/Supplemental	Beginning July 1, 2014		
Annual Benefit Amount	**Current Law**	**Statutory**	**Administrative***
<$20,000	2.00%	1.25%	0.25% [*mandatory*]
$20,000 to $40,000	1.50%		0.25% [*discretionary*]
$40,000 to $60,000	1.00%		
>$60,000	0.25%	0.15%	0.00%

*Sunsets on December 31, 2019.

The measure impacts PERS three primary benefit programs, which include Tier 1, Tier 2, and Oregon Public Service Retirement Plan. The Individual Account Program is not impacted.

Under the measure, the statutory COLA rate will be 1.25% for benefit payments up to $60,000 and 0.15% for benefit payments above $60,000. The measure provides temporary administrative authority to the PERS Board to pay a supplemental COLA beginning in 2014 through 2019. The measure directs the PERS Board to pay a 0.25% supplemental COLA to benefit recipients who receive $20,000 or less of benefits and, if the Board finds that it is "reasonable and prudent," a 0.25% COLA on pension benefits between $20,000 and $60,000.

PERS estimates that the proposed statutory COLA change will reduced system wide accrued liabilities by $1.9 billion resulting in a reduction to 2013-15 employer contribution rates by approximately 2%. The proposed statutory COLA change, however, would replace the impact of the PERS Board's administrative action directed by a budget note in SB 822 (2013). That action reduced 2013-15 employer rates by up to 1.9% using a rate deferral. In other words, the one-time/one biennium rate deferral from the budget note would be replaced with a permanent lowering of accrued liabilities and employer rates, if the measure becomes law. Therefore, this measure is expected to produce relatively nominal additional budgetary savings this biennium. Any additional savings arise because a statutory change will allow employer rates to fall below their 2011-13 rates, which could not occur with the SB 822 rate deferral. Savings arise in future biennia because the statutory change will reduce the repayment expense of the rate deferral (0.3% over the 20 year amortization period).

The payment of the supplemental COLA(s) will have no impact on the pension system's unfunded liabilities or employer rates since the payment is from a reserve not accounted for in actuarial valuations. The supplemental COLA, as a one-time payment, will not compound year to year.

PERS total unfunded liabilities will fall to $11.3 billion, excluding employer side accounts.

The measure does not require the PERS Board to recalculate 2013-15 employer rates, which would leave unchanged the rates approved at its July 26th, 2013 Board meeting.

The supplemental mandatory COLA(s) for some benefit payments would cost an estimated $1.35 million for the second year of the 2013-15 biennium and $4.91 million for the discretionary COLA. The combined cost is estimated to increase to $13-15 million for 24 months of the 2015-17 biennium.

The Contingency Reserve Account's balance is currently $600.2 million and its use is limited by statute to pay for: (a) employer insolvency; (b) legal expenses; and (c) unspecified contingencies. The measure does not allow PERS to charge any administrative expense to the Contingency Reserve Account.

The statutory provision of the measure is expected to reduce 2015-17 employer rates by 2%, but those savings will be blended in with administrative actions taken by the PERS Board, which include: a reduction in the assumed earnings rate from 8% to 7.75%; a re-amortization of Tiers One and Two unfunded liabilities; Governmental Accounting Standards Board-related changes to how retirement costs are allocated; and a modification to the employer rate collar. Combined, these elements are currently projected, based on the 2012 valuation results, to result in a 2.6% increase in employer rates for 2015-17. The liability reductions and elimination of the short-term rate deferral will reduce long-term rates by 2.3%.

Administratively, the PERS agency fiscal impact relates to the payment of supplemental COLAs since funding approved in the agency's 2013-15 Legislatively Adopted budget already accounts for a statutory COLA change [see SB 822 (2013)]. Thus, the fiscal impact totals an additional $1.02 million and four Limited Duration customer service positions (3.33 FTE). The three largest costs would be for an information technology contract ($490,500), the Limited Duration positions ($387,168) and potential Attorney General charges ($100,000). 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 Legislature in 2014 or an Emergency Board.

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. There is no fiscal impact to the Department of Justice.