

Summary of Proposals

The Senate Committee on Workforce initiated a conversation about the Public Employee Retirement System (PERS) this session and invited proposals from the public for viable options to address its rising costs and long-term sustainability. The Committee has received proposals from 16 individuals and organizations, summarized below. As explained by the Chair and Vice-Chair in a memorandum dated January 27, 2017, the Committee will evaluate the proposals it received by February 28, 2017, using the following criteria: constitutionality, order of magnitude in savings, actuarial soundness, impact on employer contribution rates, impact on state and local budgets, impact on public employee benefits, impact on public employee workforce, equitability of costs and benefits to public employees, and administrative feasibility.

Some of the submissions propose multiple changes to the PERS system. The Committee will consider the viability of each proposed change. The proposals are summarized below in two ways. The first table organizes the proposals substantively, separating out discrete ideas from broader proposals and grouping similar ideas presented in more than one submission. The second table organizes the proposals as they were submitted, summarizing each submission in its entirety. Following the tables is a list that identifies the 16 individuals and organizations who submitted proposals by location or affiliation.

Table 1: PERS Proposals Organized by Subject

General Concept	Strategies
Replace PERS with 401k plan	<ul style="list-style-type: none"> • Transfer all PERS accounts to 401k • Move all elected officials and judges to 401k with mandatory contribution
Eliminate pension plan (defined benefit)	<ul style="list-style-type: none"> • Discontinue pension program prospectively • Offer PERS and OPSRP members cash investment incentive of \$8,000 to \$10,000 to suspend further investment in their pension account
Expand Individual Account Program (IAP) (defined contribution)	<ul style="list-style-type: none"> • Allow employees to contribute more than 6% to IAP • Allow employees more investment options re IAP level of investment risk • Move all future OPSRP members to defined contribution model, in which employee contributes 6% and employer contributes 6%, with

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General Concept	Strategies
	<p>employee option to pay up to additional 6% to IAP; cap employer match at 12% (same as current max), allowing employee to invest up to 18% or more into IAP</p>
<p>Redirect or add employee contributions to pension fund</p>	<ul style="list-style-type: none"> • Redirect all or portion of IAP contributions to pension plan (possibly vary percentage of IAP contributions redirected to pension plan by percentage of funded status of system, <i>e.g.</i>, divert entire IAP contribution if funded status is below 80%, half of IAP contribution if funded status is above 80%) • Require employee contributions to pension plan in addition to contributions to IAP (potentially differentiate contribution rate by tier level—<i>e.g.</i>, higher for Tier 1 and Tier 2 than for OPSRP—or by salary—<i>e.g.</i>, no contribution on first \$30,000 of salary; allow employees to direct portion of IAP to cover contribution to pension plan) • Eliminate IAP for Tier 1 and Tier 2 members; direct their employee contributions to reduce UAL and fund reserve that reduces volatility in employer rates • Temporarily redirect Tier 1 and Tier 2 employee contributions into general PERS fund to help fund base retirement benefits until funded ratio reaches 95% or above <ul style="list-style-type: none"> ○ Require PERS to establish and fund “employer rate stabilization reserve” with annual earnings exceeding annual earnings rate, and use funds prior to increasing employer contribution rates ○ Redirect employee contributions paid directly by employer into employee account for purposes of funding employee pension; include funds in actuarial calculations as employer funds for setting employer rates ○ Redirect employee contributions withheld from employee pay, depositing 50% into employee account for purposes of funding employee pension and 50% into employee’s IAP account ○ Increase employee contribution rate by 1 to 2 percent a year until rate reaches 12 to 14%, for purposes of redirecting a portion or all to employee account created to fund employee pension

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General Concept	Strategies
Provide new funding sources for PERS	<ul style="list-style-type: none"> ● Fund UAL with savings from furlough days ● Fund UAL 2% sales tax to fund PERS ● Fund UAL with tax revenue from sale of marijuana ● Fund UAL with Oregon State Lottery funds ● Devote income from revenue reform to systemwide PERS side accounts for rate relief to all employers
Offset employer PERS costs	<ul style="list-style-type: none"> ● Require employees to pay their half of social security taxes ● Require employees to pay for their share of health care benefits ● Require employees to share costs for employee disability retirement plan benefit
Reduce employee retirement benefits	<ul style="list-style-type: none"> ● Change calculation of FAS from final three years to five or ten years* ● Cap annual salary at \$100k for calculation of FAS* ● Exclude lump sums for sick leave, vacation leave, or overtime from calculation of FAS* ● Reduce multiplier for calculation of pension benefit under Full Formula* ● Raise retirement age* ● Reduce Money Match annuitization rate from 7.5% to 3.5%* <p><i>* These concepts are also included in SB 559, SB 560, and SB 913.</i></p> <ul style="list-style-type: none"> ● Increase years of service for full retirement from 30 to 32 years ● Prohibit employees from drawing on PERS benefits until age 62 ● Prohibit double-dipping ● Prohibit agencies from raising employee compensation in return for paying their own health care for purpose of artificially increasing FAS ● Eliminate annual 2% COLA ● Suspend COLA until PERS is 90% funded ● Cap total monthly retirement benefits ● Direct PERS actuary to use risk-free rate of return in calculating Tier 1 Money Match benefit ● Set annuity rate for Money Match on real market condition instead of on Assumed Interest Rate ● Eliminate tax remedy benefit for out-of-state PERS retirees

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General Concept	Strategies
	<ul style="list-style-type: none"> • Align prospective benefits of Tier 1 and Tier 2 members with OPSRP members, except for earlier retirement ages for Tier 1 and Tier 2
Limit growth of Unfunded Actuarial Liability (UAL)	<ul style="list-style-type: none"> • Offer PERS members voluntary buyout of pension benefits • Offer PERS members paid insurance until age 65 upon early retirement
Change PERS investment management practices	<ul style="list-style-type: none"> • Reduce investment management costs by managing investments internally
Calculate contribution rates by category of employee	<ul style="list-style-type: none"> • Establish separate “pots” for funding different categories of PERS members, such as athletic director, teachers, doctors and nurses, first responders, and public works employees

Table 2: PERS Proposals Organized by Submission

Name	Proposal
Portland constituent	<ol style="list-style-type: none"> 1. Transfer all PERS accounts into 401k safe harbor 2. Limit public employer contributions to 5% match to 401k, based on more than 2 years worked 3. Require employees to pay their half of social security taxes 4. Exclude unused sick leave, vacation leave, and overtime for calculating final average salary (FAS) 5. Require employees to pay for their share of health care benefits 6. Cap all retirement funding to 50% of employee’s last 5-year average salary 7. Prohibit employees from drawing on PERS until age 62 8. Prohibit double and triple dipping 9. Reduce the tens of thousands of retired employees getting \$7,000 per month or more from PERS
Retired PERS member	Eliminate annual 2% COLA
Veneta constituent	Offer PERS buyout provision, and let workers bargain pay and benefits with union based upon savings
Member of Chemeketa Community College Board of Education	Give Tier 1 members opportunity to withdraw funds voluntarily and end their relationship with PERS
Representative of Medford Jackson County Chamber	<p><u>Concept 1:</u> Implement a voluntary Accelerated Disbursement Option Program (ADO) for retirees already receiving or scheduled to receive PERS benefits, offering PERS Tier 1 recipients lump sum disbursement based on predetermined formula. Fund option by 30-year State revenue bond or state revenue package, available only for limited time. Establish incentives for retirees to choose ADO, such as creation of state tax credit program for charitable donations by ADO volunteers.</p> <p><u>Concept 2:</u> Implement seven policy adjustments to PERS structure:</p> <ol style="list-style-type: none"> 1. Move all elected officials and judges to 401k (mandatory contribution) 2. Suspend COLA until PERS is 90% funded

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	<ol style="list-style-type: none"> 3. Exclude unused vacation and sick leave in calculation of final average salary 4. Calculate final average salary over 10 years instead of 3 years 5. Reduce Money Match annuitization rate to 3.5% 6. Cap final average salary calculation to \$100k/year 7. Redirect IAP employee contributions to PERS
Portland constituent	Start a citizens' initiative process on proposal to dismantle current construct of PERS and replace a sustainable PERS that would allow Oregonians to pay for the current workforce and programs.
Jefferson constituent	Prohibit agencies from raising employee compensation in return for paying their own health care for purpose of artificially increasing FAS
Partner at Concentric Equity Partners, Portland	Offer PERS members a buyout of their pension benefits, calculated by taking the present value of each person's accrued retirement benefits, discounted by conservative interest rate, and multiplying it by funded percentage of plan plus five percentage points.
Oregon Business Council	<p><u>Concept 1:</u> Recommendations from Oregon Business Plan White Paper on PERS Reform, submitted to SWF committee for its February 13th meeting:</p> <ol style="list-style-type: none"> 1. Discontinue pension program prospectively 2. Disallow future use of unused vacation & sick leave as part of final average salary 3. Reduce annuitization rate for Money Match from 7.5% to 3.5% 4. Cap calculation of FAS at \$100,000/year 5. Calculate FAS at five years instead of three 6. Reduce factor for calculation of pension benefit 7. Raise retirement age 8. Redirect future employee IAP contributions to pension plan <p><u>Concept 2:</u> Recommendations from City Club of Portland 2011 Report on PERS Reform:</p> <ol style="list-style-type: none"> 1. Require PERS Board to direct PERS actuary to use risk-free rate of return in calculating Tier 1 Money Match benefit 2. Eliminate Individual Account Program (IAP) for Tier 1 and Tier 2 members and instead direct annual Tier 1 and Tier 2 employee contribution to reducing Unfunded Actuarial Liability and funding a reserve that can be used to reduce volatility in employer rates

Name	Proposal
	<p>3. Eliminate tax remedy benefit for out-of-state PERS retirees</p> <p>4. Require PERS Board to establish “employer rate stabilization reserve” to increase stability and predictability of employer contribution rates: when PERS investment returns exceed assumed annual earnings rate, require PERS Board to fund reserve to pre-defined level before providing employer rate relief; conversely, when PERS investment returns fall short of assumed annual earnings rate, require PERS Board to pull funds from reserve prior to increasing employer rates</p> <p>5. Reduce years-of-service multiplier by one-third, from 1.5% to 1.0% for general service employees and from 1.8% to 1.2% for police and fire fighters.</p> <p>6. Align OPSRP retirement ages with Social Security, both now and as Social Security evolves in the future; increase OPSRP retirement ages by two years across-the-board, and increase by two years retirement ages for police and fire employees.</p> <p>7. Offer OPSRP employees nearing retirement more IAP investment options</p> <p><u>Concept 3: Equitable Framework.</u> Addresses disparities among employees with respect to shouldering costs and receiving benefits of PERS. Consider reforms that have effect of:</p> <ol style="list-style-type: none"> 1. Bringing normal cost of Tier 1 and Tier 2 pension benefits in line with OPSRP on go forward basis, creating equity among current employees in future benefit earnings and costs. 2. Establishing cost sharing by active employees to shoulder remaining share of UAL attributable to their PERS classification (Tier 1, Tier 2, and OPSRP respectively). <p>Ideas for implementing Concept 3:</p> <ol style="list-style-type: none"> 1. Freeze current employer contribution rates through 12/31/17; 2. Establish following provisions effective 1/1/18: <ol style="list-style-type: none"> a. Create new tier of benefits for Tier 1 and 2 employees that is identical to OPSRP, except retain earlier retirement ages for Tier 1 & Tier 1 employees, or create new tier of benefits for Tier 1 and 2 that is equivalent to OPSRP in its "normal cost" (measured in payroll contribution rate), and clarify how proration of prior and future service would be calculated for Tier 1 and 2 employees

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Name	Proposal
	<p>b. Reduce annuitization rate for Money Match</p> <p>c. Establish employee contribution for pension benefits (distinct from IAP) at all tiers of coverage,</p> <ul style="list-style-type: none"> ▪ Differentiate amount of employee contribution by tiers (not to exceed 6% for Tier 1 and 2 and 3% for Tier 3 employees) and by salary level (<i>e.g.</i> no contribution required on the first \$30,000 of salary) ▪ Reset employee contribution rates every biennium thereafter (within 3% and 6% maximums) to ensure proportionate increases or decreases in employee rate when the UAL attributable to current employees rises or falls above or below the levels specified in the actuarial report for 2017 ▪ Allow employees to direct some or all of their IAPs to cover their contributions to pension plan ▪ Make optional redirection of IAP negotiable for represented employees, specifying that, where existing bargaining agreements prohibit such changes, status quo prevails until expiration of such agreements or renegotiation of conflicting provisions
Tax Fairness Oregon	<ol style="list-style-type: none"> 1. Reduce investment management costs by managing investments internally 2. Temporarily redirect Tier 1 and 2 employees' future 6% contributions into general PERS fund, separate from money match, to help fund base retirement benefits 3. Authorize automatic adjustment to benefits when system Funded Ratio reaches 95% or above 4. Establish \$100,000 limit on final average salary, indexed to inflation for all tiers as PERS reaches its target Funded Ratio goal of 95%. 5. Raise full retirement age to match full Social Security retirement age for all tiers, with police and fire retirement requirements matching OPSRP across system 6. Increase early retirement age to 60 (53 for P&F) across the system, with same P&F five years of continuous service now required in OPSRP 7. Increase years of service for full retirement from 30 to 32 years 8. Exclude lump sums for vacation, sick leave and overtime from calculation of FAS for Tiers 1 and 2

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Name	Proposal
	9. Reduce Full Formula Benefit Factor to 1% for Tiers 1 and 2 10. Calculate FAS over five years rather than three
Tier 1 PERS member, 33 years in Fire Service, former Trustee of PERS Board	Proposal to balance PERS funding and require employees to contribute to both defined pension benefit and defined contribution savings. <ol style="list-style-type: none"> 1. Beginning July 1, 2017, deposit any future employee contributions paid directly by employer into employee account for purposes of funding employee pension. <ol style="list-style-type: none"> a. Use existing accounts for Tier 1 and Tier 2 employees, and create accounts for OPSRP members b. Include funds in actuarial calculations as employer funds for purposes of setting employer rates 2. Beginning July 1, 2017, deposit any employee contributions that are withheld from employee pay, even if considered “picked up” for tax purposes, 50% into Employee account as described above and 50% into employee’s IAP account 3. Beginning July 1, 2017, and each July 1 thereafter, increase employee contribution rate by 1% until rate reaches 12% 4. Accelerated option: increase employee contribution rate by 2% a year to 14% over 4 years
Superintendents at Alsea and Lebanon School Districts	Move all future PERS/OPSRP employees to defined contribution model, in which employee contributes 6% and the employer contributes 6% with employee option to pay up to additional 6% into IAP retirement account (or more as per federal limits): <ol style="list-style-type: none"> 1. Cap employer match at 12% (same as current max), allowing employee to invest up to 18% or more of their pay into IAP 2. Allow each employee to direct level of investment risk on their investments 3. Offer PERS/OPSRP members cash investment incentive of \$8,000 to \$10,000 to suspend further investment in their PERS or OPSRP defined benefit account
Salem constituent	<ol style="list-style-type: none"> 1. Establish \$100,000 cap on final average salary used in calculation of member benefits 2. Calculate final average salary by average of five years of wages instead of three

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Name	Proposal
Oregon Department of Corrections employee	<ol style="list-style-type: none"> 1. Offer Tier 1 and Tier 2 members paid insurance until age 65 upon early retirement 2. Furlough days 3. Establish 2% sales tax to fund PERS 4. Use tax revenue from sale of pot to fund PERS
Redmond constituent	<ol style="list-style-type: none"> 1. Establish separate “pots” for funding different categories of PERS members, such as athletic directors, teachers, doctors and nurses, first responders, and public works employees. 2. Fund PERS by tapping into marijuana taxes or Oregon State Lottery funds
Oregon League of Cities	<ol style="list-style-type: none"> 1. Use in-house investment service providers to decrease amount of public dollars to outside investment services 2. Devote income from revenue reform to system-wide PERS side account for rate relief to all employers 3. Redirect IAP contributions to pension plan based on funded status of system, <i>e.g.</i>, if funded status is below 80%, divert entire IAP contribution to pension plan; if above 80% funded, divert half of IAP contribution to pension plan 4. Redirect IAP contributions to pension plan by splitting six percent employee contribution, diverting half to IAP and half to pension plan; consider allowing employee to contribute additional amount to IAP 5. Set annuity rate for Money Match on real market conditions instead of on Assumed Earnings Rate 6. Consider cost sharing for employee disability retirement plan benefit

Location/Affiliation of Individuals Who Submitted Proposals

1	Portland constituent
2	Retired PERS member
3	Veneta constituent
4	Member of Chemeketa Community College Board of Education
5	Medford Jackson County Chamber
6	Portland constituent
7	Jefferson constituent
8	Partner at Concentric Equity Partners, Portland
9	Oregon Business Council
10	Tax Fairness Oregon
11	PERS Tier 1 member, 33 years in Fire Service, former Trustee of PERS Board
12	Superintendents from Alsea and Lebanon School Districts
13	Salem constituent
14	Oregon Department of Corrections employee
15	Redmond constituent
16	Oregon League of Cities