PRELIMINARY ANALYSIS
PUBLIC EMPLOYEES RETIREMENT SYSTEM PROPOSAL
79th Oregon Legislative Assembly – 2017 Regular Session

This form provides an outline for the preliminary analysis of proposals submitted to the Senate Committee on Workforce to address the rising costs and long-term sustainability of the Public Employees Retirement System (PERS). A technical team, including but not limited to individuals from Legislative Counsel, Legislative Fiscal, and PERS, will analyze each proposal under the following criteria for the Committee's consideration.

- 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 & Benefits to Public Employees
- Administrative Feasibility

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Measure Numbers/LC (if any): Senate Bill 560-8 Amendment

Summary of Proposal: Increases waiting period to become PERS member from six months to 12 months for eligible employee employed in qualifying position on or after effective date of Act. Defines "eligible employee" under Act. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017.

Summary of Current Law: The waiting time for a new employee in a qualifying position to start OPSRP membership is currently six consecutive months.

Has a detailed actuarial analysis been completed for this proposal? No.

ANALYSIS

The analysis should address each of the following criteria to the extent that information is available.

1. **Constitutionality**
   Legislative Counsel – No constitutional concerns. Applies only to persons employed on or after the effective date of the Act.

2. **Order of Magnitude in Savings (for next three biennia, if possible)**
   PERS – No actuarial analysis has been completed, so there are no projected savings from this concept.

   LFO – In the absence of an actuarial analysis, the preliminary impact of the amendment is difficult to ascertain; however, given the comments by PERS, there may be minimal to no financial impact for the next several biennia until actual experience is observed and incorporated into future employer rates.

3. **Actuarial Soundness**
   PERS – Within the context of whether this concept would, over the time period considered, allow projected employer contributions and investment income to fully fund the system, there is no data to conclude whether this concept would affect the system's actuarial soundness.

4. **Impact on Employer Contribution Rates (for next three biennia, if possible, including normal costs, unfunded actuarial liability (UAL), Individual Account Program/employee contributions, state agencies, school districts, and other PERS employers)**
   PERS – Please note that 2017-19 employer contribution rates have already been adopted, and those rate increases were limited by the PERS Board's rate collar policy. Cost reductions, if any, from this concept would be carried over to future biennia when the collar is fully implemented absent specific direction from the legislature to apply those savings in the next cycle. Doing so would postpone the full implementation of non-collared rates.

   As to whether this concept would in fact reduce system costs, we have not conducted an actuarial analysis on this concept so we cannot represent that there would or would not be cost savings. Actual experience would have to be observed over several cycles to see whether this in fact decreases the number of members who become eligible for PERS. Note that OPSRP members are provided service credit for their waiting period by current law, so this concept would only prevent employees who leave public employment between six months and one year from becoming eligible for OPSRP. Those members are unlikely to meet the five year vesting requirement, so whether this concept actually reduces the number of members who ultimately become OPSRP members would have to be based on the observed experience.

   LFO – In the absence of an actuarial analysis, the preliminary impact of the amendment is difficult to ascertain; however, given the comments by PERS, there may be minimal to no financial impact for the next several biennia until actual experience is observed and incorporated into future employer rates.

5. **Impact on State and Local Budgets (cost savings and cost shifts, impact on General/Lottery Fund, and potential financial impact on collective bargaining)**
   PERS – See the comment on item 4.

   LFO – In the absence of an actuarial analysis, the preliminary impact of the amendment is difficult to ascertain; however, given the comments by PERS, there may be minimal to no financial impact for the next several biennia until actual experience is observed and incorporated into future employer rates.

6. **Impact on Public Employee Benefits (Tier 1, Tier 2, Oregon Public Service Retirement Plan (OPSRP))**
   PERS – No impact on Tier One or Two benefits as the concept only applies to new members in the system, who join OPSRP. Absent actual experience under this new waiting time period, we cannot predict whether this concept would reduce the number of members who qualify.

7. **Impact on Public Employee Workforce (rate of retirements, employers' ability to recruit and retain employees)**
   PERS – As this concept only affects new entrants to the workforce, there's probably no impact on rate of retirements. As to the effect on recruitment and retention, this concept would probably not affect an individual's decision to enter public employment as their expectation is to continue in the position beyond six months already.

8. **Equitability of Costs and Benefits to Public Employees (costs/benefits)**
   PERS – As this concept only affects new entrants to the workforce, those members would have to wait longer before qualifying for membership than their predecessors.

9. **Administrative Feasibility**
   PERS – There will be a fiscal impact to the agency to reprogram benefit eligibility determinations and contribution start dates to accommodate the new standard. Additionally, the agency will revise member education material in all formats to reflect the new standard.

Technical Issues of Note:
Legislative Fiscal – The measure may require clarification to ensure that budgetary savings, if any, begin with the 2017-19 biennium and reduce the recalculated 2017-19 employer contribution rates adopted by the PERS Board. Also, a more complete fiscal analysis will be prepared as the measure advances through the legislative process.