

**SB 560 -2, -3, -4, -5, -6, -8, -9, -10, -13, -15 STAFF MEASURE**

**SUMMARY**

**Senate Committee On Workforce**

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**Prepared By:** Debra Maryanov, LPRO Analyst

**Meeting Dates:** 2/13, 3/15, 4/12, 4/17

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**WHAT THE MEASURE DOES:**

Eliminates new memberships in individual account program (IAP) under the Public Employees Retirement System (PERS). Establishes new account for each active PERS member. Redirects employee contributions of six percent of the member's salary from member's IAP account to new account. Applies amounts in new account to costs of member's pension or other retirement benefits that accrue on or after January 1, 2018. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Allows inactive member to receive distribution of amounts in member's new account in certain circumstances.

Establishes cap of \$100,000 on amount of salary for calendar year included in calculation of final average salary (FAS) for purposes of determining member's PERS benefit. Provides exception for judge members.

Provides for expedited Supreme Court review of petitions by adversely affected persons. Declares emergency, effective on passage.

**ISSUES DISCUSSED:**

- Unfunded liability in Public Employees Retirement System (PERS)
- Impact of measure on employee retirement benefits, collective bargaining agreements, and employer rates
- Impact of measure on school districts, public universities, and local governments
- Potential savings produced by measure
- Oregon Supreme Court rulings related to measure
- Provisions of the proposed amendments
- Concerns about emergency clause

**EFFECT OF AMENDMENT:**

-2 Replaces measure. Changes calculation of benefits under Public Employees Retirement System full formula for service after January 1, 2018. Decreases pension multiplier from 1.67 percent to one percent of final average salary per year of service for general service members and from two percent to 1.20 percent for police and fire members. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Provides for expedited Supreme Court review of petitions by adversely affected persons. Declares emergency, effective on passage.

-3 Replaces measure. Requires Public Employees Retirement Board (PERB) to adopt actuarial equivalency factor tables for computing payments to Public Employees Retirement System members and others as needed, and at least every two years. Establishes assumed interest rate of 3.5 percent to convert account balances to monthly lifetime annuities, decreasing PERB's current long-term investment return assumption of 7.5 percent. Clarifies that 3.5 percent assumed interest rate is independent of PERB's long-term investment return assumption. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Provides for expedited Supreme Court review of petitions by adversely affected persons. Declares emergency, effective on passage.

This Summary has not been adopted or officially endorsed by action of the committee.

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-4 Replaces measure. Changes definition of salary for purposes of calculating final average salary of Tier One and Tier Two members of Public Employees Retirement System. Adds exclusion to definition of salary or other advantages for any lump sum payment for accumulated unused vacation leave or other unused paid leave accrued on or after January 1, 2018. Prohibits Public Employees Retirement Board from considering accumulated unused sick leave or vacation leave accrued on or after January 1, 2018, for purpose of increasing employee retirement benefits upon retirement. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Provides for expedited Supreme Court review of petitions by adversely affected persons. Declares emergency, effective on passage.

-5 Replaces measure. For members of Oregon Public Service Retirement Plan (OPSRP), not including police officers or firefighters, who establish membership in pension program on or after effective date of Act, increases normal retirement age to 67 years of age, and early retirement age to 57 years of age, regardless of number of active service years. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Declares emergency, effective on passage.

-6 Replaces measure. Requires public employer that hires retired member of Public Employees Retirement System on or after effective date of Act to contribute percentage of retired member's salary to Public Employees Retirement Board that would have been contributed if retired member were active member.

-8 Replaces measure. 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. Declares emergency, effective on passage.

-9 Replaces measure. Increases from 600 to 1000 service hours in a calendar that year that eligible employee employed in qualifying position on or after effect date of Act must complete to become PERS member. Requires PERS members establishing membership in pension program on or after effective date of Act to complete at least 1000 service hours in each of five calendar years to become vested in pension program. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Declares emergency, effective on passage.

-10 Replaces measure. Changes calculation of benefits under Public Employees Retirement System (PERS) full formula for service after January 1, 2018. Changes pension multiplier for general service members from 1.67 percent of final average salary per year of service to a percentage to be determined, and for police and fire members, from two percent to a percentage to be determined. Changes calculation of final average salary by calculating member's average annual salary over five years of member's highest annual salary before member's retirement, or one-fifth of total salary in last 60 months of active membership, whichever is greater. Excludes any lump sum payment for accumulated unused vacation leave or other unused paid leave accrued on or after January 1, 2018.

Requires PERS Board to create member pension contribution account for each PERS member and, every two years, to set percentage of salary that member is required to contribute to member pension contribution account. Requires different ranges of employee contribution rates, amounts to be determined in statute, for different member classifications. Prohibits employers from making required contributions to member pension contribution account. Allows employee to redirect contributions to employee's Individual Account Program account to employee's member pension contribution account as alternative to contributing additional percentage of salary .

Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Provides for expedited Supreme Court review of petitions by adversely affected persons. Declares emergency, effective on passage.

-13 Directs Public Employees Retirement Board (PERB) to reimburse retired PERS member for any reduction of benefits payable on or before December 31, 2014, based on erroneous determination that benefits were not subject to Oregon personal income tax due to nonresidency. Sunsets January 2, 2019. Declares emergency, effective on passage.

-15 Removes emergency clause.

**BACKGROUND:**

PERS enables public employers to provide their employees with retirement benefits. State government, public schools, community colleges, and many local governments participate in PERS, including approximately 925 employers and covering about 95 percent of all public employees in Oregon. PERS contains approximately 347,000 members, including 168,000 active, 43,000 inactive, and 136,000 retired. Approximately 32 percent of members are currently eligible to retire by age or service.

PERS is a hybrid pension plan that includes a defined benefit plan and a defined contribution plan. Upon retirement, all PERS members receive both a life pension (defined benefit) and the balance of the member's individual account (defined contribution). The pension is funded in part by employer contributions (and employee contributions made before 2003), and the member's individual account is funded through a required employee contribution of six percent of the member's salary.

The Oregon Legislative Assembly created the Individual Account Program (IAP) in 2003. Since 2004, all active member contributions have been placed into members' individual accounts. Earnings and losses are credited annually to IAP accounts, and they are subject to earnings and losses until the member removes the funds. At retirement, a member may receive the IAP as a lump-sum payment or in equal installments over a specified number of years.

Senate Bill 560 makes two primary changes to PERS, which impact both the pension plan and the IAP. First, it redirects the required employee contributions from the member's IAP to a new account. The funds in the new account will be used to offset the employer's costs for member pensions accrued on or after the date of the redirection. Second, it establishes a \$100,000 cap on the amount of a member's salary for any calendar year in 2018 or beyond for purposes of calculating the member's final average salary. Currently, the final average salaries for Tier Two and OPSRP members are capped under federal law. The cap is indexed and will be \$270,000 for 2017. There is no cap on salary for purposes of determining the final average salary under Tier One. The salary cap under SB 560 may reduce the employer contribution rate by decreasing the amount calculated for some members' final average salary and, consequently, the amount of their pensions.

Those concepts emerged from a workgroup formed by Senator Tim Knopp and Senator Betsy Johnson during the 2015-16 Interim Session to craft a comprehensive PERS solutions package.