

SB 560 A STAFF MEASURE SUMMARY

Senate Committee On Workforce

Action Date: 04/17/17

Action: Without recommendation as to passage, but with amendments and requesting referral to Ways and Means. (Printed A-Eng.)

Vote: 3-2-0-0

Yeas: 3 - Hansell, Knopp, Taylor

Nays: 2 - Gelser, Monnes Anderson

Fiscal: Fiscal impact issued

Revenue: No revenue impact

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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 for purposes of determining member's PERS benefit. Provides exception for members who are judges. Provides for expedited Supreme Court review of petitions by adversely affected persons.

ISSUES DISCUSSED:

- Unfunded liability in Public Employees Retirement System
- 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 program
- Provisions of the proposed amendments
- Concerns about emergency clause

EFFECT OF AMENDMENT:

Removes emergency clause.

BACKGROUND:

The Public Employees Retirement System (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 years of 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

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percent of the member's salary.

The 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 amount in their IAP account as a lump-sum payment or in equal installments over a specified number of years.

Senate Bill 560-A 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 Senate Bill 560-A may reduce the employer contribution rate by decreasing the amount calculated for some members' final average salary and, consequently, the amount of their pensions.

Provisions of Senate Bill 560-A 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.