

HB 4159 A STAFF MEASURE SUMMARY

Joint Committee On Ways and Means

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Meeting Dates: 2/26, 2/28

WHAT THE MEASURE DOES:

Directs the Public Employees Retirement Board to adopt rules that allow members to choose how their Individual Account Program (IAP) is invested among available options. Allows Board to contract with private provider, with exemption from public contracting code, for purposes of implementing the change to allow IAP members to choose an investment option. Requires State Treasurer to notify Board by December 31, 2018, if legal and fiduciary standards prohibit implementation. Declares emergency, effective on passage.

ISSUES DISCUSSED:

- Member investment selection choice
- Impact of a State Treasury's determination
- How complicated for PERS to administer
- PERS education and outreach
- Existing VOYA contract
- IAP member investment advice
- Public contracting exemption and abridged implementation window
- Fiscal impact

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

On September 20, 2017, the Oregon Investment Council mandated a move of the Individual Account Program to a target-date fund solution beginning January 2, 2018. Members were given no choice to make individual investment decisions. This change has implications to a member's IAP benefit, the administration of the Public Employees Retirement System, including an ongoing IAP information technology project, as well as State Treasury's Investment Division.

The IAP includes over 250,000 member accounts for Tier One, Tier Two, and Oregon Public Service Retirement Plan (OPSRP) benefit plans. The IAP, an account-based plan nearly identical to a defined contribution plan, is funded with member contributions, which is 6% of a member's salary. The member contribution can be paid by the employee or assumed and paid by the employer; generally, the contribution is made on a pre-tax basis. Since inception on January 1, 2004, the IAP has been invested no differently than other assets in the Oregon Public Employees Retirement Fund. The IAP has no guaranteed rate of return and earns a "market" rate of return. IAP returns have been variable at a high of 18.47% (2009) to a low of -26.75% (2008). The IAP ten-year return is 6.62% (including 2008), the five-year return is 9.22%, the three-year return is 7.81%, and the one-year return is 14.45%. The IAP currently has a balance of approximately \$9 billion (or 12%) of the total \$76.7 billion PERS portfolio. Of note is that the IAP has no unfunded liability and is not included in actuarial valuations because IAP assets are not available to pay a pension benefit.

HB 4159 was introduced in response to OIC's administrative action. This measure provides for IAP member choice in investment selection or election beginning on January 1, 2019. If this measure becomes law, the OIC's target-date solution would still remain a mandatory change for IAP members, and without member choice to make individual

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investment decisions, for a one-year period. Then, beginning January 1, 2019, the OIC decision would be statutorily overturned and IAP members would be allowed a choice in investment selection. The measure allows members to make an election once per calendar year. The measure provides an exemption from standard procurement law in order to meet this timeline. The State Treasury has reported to the Legislature that it is "...researching with legal counsel the potential ramifications of IAP choice to the pension fund...that review will examine options to introduce participant choice within the new framework while simultaneously safeguarding OPERF's legal status and access to private market investment opportunities," according to a February 2018 report to the Joint Committee on Ways and Means.