

SB 1566 A BUDGET REPORT and MEASURE SUMMARY

Joint Committee On Ways and Means

Prepared By: John Borden, Legislative Fiscal Office

Reviewed By: Theresa McHugh, Legislative Fiscal Office

Public Employees Retirement System

2017-19

PRELIMINARY

Summary of Revenue Changes

Senate Bill 1566 establishes the Employer Incentive Fund, which retains interest earnings, and is continuously appropriated to the Public Employees Retirement Board (PERS). The fund is capitalized with 18%, or an estimated \$25 million, in one-time funding from SB 1529. The Employer Incentive Fund is abolished January 2, 2025, and any unexpended monies are to be transferred to the General Fund.

The measure also establishes the School Districts Unfunded Liability Fund, which also retains interest earnings and is continuously appropriated to the Public Employees Retirement Board. The fund is capitalized with 82%, or an estimated \$115 million, in one-time funding from SB 1529. Additional revenue transfers that may become available include the following:

- Excess proceeds, with limitation, from debt collection (repeals December 31, 2024)
- Excess proceeds, with limitation, from capital gains taxes (limited to calendar years 2019, 2021, and 2023)
- Excess proceeds, with limitation, from estate taxes (limited to calendar years 2019, 2021, 2023)
- Excess proceeds, with limitation, from interest on unclaimed property (repeals January 2, 2027)

The revenue impact from these four transfers is indeterminate at this time (*see Revenue Impact Statement*). These sources of revenue would ordinarily be considered General Fund available for general governmental purposes rather than dedicated to the specific use in the measure.

Summary of Capital Construction Subcommittee Action

This measure contains a number of provisions to address the Public Employee Retirement System (PERS) Unfunded Accrued Liability (UAL). This measure does **not** impact PERS member defined pension or defined contribution benefits, but does provide a new source of financing for member pension benefits. The measure makes no change to each employer's legal responsibility to make employer contributions or to fund their liabilities. UAL remains the financial responsibility of individual employers. The measure is effective on the 91st day after passage.

Employer Incentive Fund

The measure establishes an Employer Incentive Fund to be used for a one-time match program. The match rate is up to 25% of a PERS employer's contribution. Once matched, state funds would be transferred into a new or existing employer's side account at which time the state would relinquish all financial interest in the match. All PERS entities, including school districts, community colleges, and public universities, are eligible to participate in the matching funds program; however, in order to become eligible for matching funds, an employer must have an approved Unfunded Actuarial Liability Resolution plan, as discussed below.

The minimum contribution from the employer would be \$25,000 and the maximum would be up to five percent of an employer's UAL or \$300,000, whichever is greater. The employer must apply to reserve matching funds by no later than December 31, 2019, and the employer's lump sum payment must be made by July 1, 2023. An employer contribution may not be from borrowed funds. The initial round of applications

is limited to employers with UALs of more than 200% of their PERS-eligible payroll, then, after a 180-day period, the fund becomes open to all other employers up to the amount remaining in the Employer Incentive Fund. The amortization schedule for any new side account established will be determined under current administrative rule. When transferred to an employer's side account, the amount transferred will be counted as an asset for actuarial valuation purposes.

School Districts Unfunded Liability Fund

The measure establishes a School Districts Unfunded Liability Fund. The PERS Board is planning to transfer available funds into a newly created school districts pooled side account, at which time the state would relinquish financial interest in the funds. The PERS Board is to proportionately distribute, based upon administrative rule and an amortized basis, the pooled school district side account among all school districts as an offset to employer contribution rates. The pooled school districts side account will be counted as an asset for actuarial valuation purposes.

Unfunded Accrued Liability Resolution program

The measure creates in PERS an Unfunded Accrued Liability Resolution program. PERS shall establish this program to assist an employer in the development of a plan to improve the employer's funded status and to manage projected employer rate changes. Employer participation in the program is voluntary. The PERS Board shall set, by administrative rule, the minimum requirements for an employer plan, and shall provide technical expertise in the development of an employer's plan upon request by the employer. Expenses of the Board related to the program are authorized to be paid from the Employer Incentive Fund.

Side Account Lump Sum Payments

The measure allows an entity making a lump-sum payment into a side account of \$10 million or more to choose an amortization period of six years, 10-years, 16-years, or 20-years. The measure clarifies that such lump sum payments may only be funded with cash.

Unfunded Accrued Liability Impact

The system-wide UAL for calendar year 2016, the most current year available, is \$19.9 billion after taking into account \$5.4 billion in pre-paid employer side accounts. The funded status of the system is 75.4% funded, based on current PERS Board assumptions. The immediate addition of \$140 million in SB 1529 funds, and \$100 million of employer matching funds, would improve the system-wide funded status by \$240 million to 75.7% funded, excluding the indeterminate impact of the four other sources of revenue associated with the School Districts Unfunded Liability Fund. There is the assumption that the PERS Board will account for all assets in the Employer Incentive Fund and the School Districts Unfunded Liability Fund for actuarial valuations purposes once those funds are transferred to their respective side accounts.

Employer Rate Impact

The PERS Board will adopt employer contribution rates for the 2019-21 biennium in the fall of 2018 based on final earnings crediting for calendar years 2016 (+7.1%) and 2017 (+15.15%), as well as the PERS Board decision to lower the assumed rate from 7.5% to 7.2% per annum

beginning retroactively with the December 31, 2016 actuarial valuation. The Board's rate collaring policy will likely result in almost all employers seeing the maximum allowed increase in employer rates. The impact of the assets added by this measure, including SB 1529, to the PERS system will likely be insufficient to provide employer rate relief for the 2019-21 biennium or at best, if the funds are received in time to establish side accounts during the 2019-21 biennium, the result could be a modest rate reduction for those affected employers. Otherwise, the impact of a rate reduction would not occur until the 2021-23 biennium, which again is dependent upon available funding and an employer's establishment of a side account or contributions to an existing side account.

Reporting Requirements

The measure directs the State Treasurer to study the "feasibility and prudence" of borrowing moneys deposited by state agencies and other state entities into the Oregon Short Term Fund to generate higher rates of return sufficient to cover the cost of borrowing the funds and to make supplemental deposits to PERS to reduce the UAL. The study is to be completed by September 30, 2019.

PERS is to report no later than February 1 of each odd-numbered year to the Oregon Department of Administrative Services and the Legislative Fiscal Officer an estimate of how moneys in the School Districts Unfunded Liability Fund account will be distributed in the following biennium. PERS is to report during each regular session to the Joint Committee on Ways and Means on the status of the Employer Incentive Fund, School Districts Unfunded Liability Fund, and the Unfunded Accrued Liability Resolution program.

Expedited Legal Review

The measure provides for an expedited review by the Oregon Supreme Court. The Oregon Judicial Department may have costs beyond what is currently budgeted for the appointment of a Special Master, if an expedited judicial review is sought.

Administrative Costs

PERS may need to request additional Other Funds expenditure limitation and position authority from the Emergency Board or the Legislature in 2019 for administrative and reporting costs related to this measure. The measure allows PERS the ability to charge reasonable expenses to the Employer Incentive Fund and the School Districts Unfunded Liability Fund. The Department of Revenue, Department of State Lands, and the Department of Administrative Services are expected to have a minimal fiscal impact.