Analysis

Public Employees Retirement System

SB 1566 Status Report

Analyst: John Borden

Request: Acknowledge receipt of a report on SB 1566 (2018)

Analysis: The Public Employee Retirement System (PERS) is directed by statute 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 that were established by SB 1566 (2018).

SB 1566 established an Employer Incentive Fund to be used for a 25% match program. All PERS entities, including school districts, community colleges, and public universities, are eligible to participate in the matching funds program under the conditions outlined in the bill. The fund is to be capitalized with an estimated $25 million in one-time funding from SB 1529 (2018).

SB 1566 also established a School Districts Unfunded Liability Fund. The PERS Board is planning to create a school districts pooled side account and proportionately distribute the side account among all school districts as an offset to employer contribution rates. The fund is to be capitalized with an estimated $115 million in one-time funding from SB 1529 (2018). Additional revenue transfers that may become available include excess revenues from: debt collection, capital gains, estate taxes, and interest on unclaimed property.

Since the close of the Legislative session in 2018, the revenue estimate related to SB 1529 has become less certain and may produce less than the original $140 million in estimated tax repatriation revenue; however, updated revenue information will become available over the course of the next several tax years. Additionally, the Department of Administrative Services reports that transfers related to excess debt collection, capital gains, and estate taxes are not expected this biennium. The School Districts Unfunded Liability Fund did receive an $11.5 million transfer from the Department of State Lands from interest on unclaimed property. The PERS Board does not anticipate deploying these proceeds to reduce employer rates until the 2021-23 biennium at the earliest as 2019-21 employer contribution rates already adopted by the PERS Board.

The measure creates an Unfunded Accrued Liability Resolution program to assist an employer in the development of a plan to improve the employer's funded status. PERS has made some limited progress implementing this program.

PERS reports the need to make technical statutory adjustments to SB 1566, which the agency proposed with SB 75 (2019).

PERS and the Executive Branch are continuing to work on the details regarding how SB 1566 will be implemented once revenues become available.

Apart from the SB 1566 reporting requirement, SB 1566 allows an entity making a lump-sum cash payment into a side account of $10 million or more and to choose an amortization period of six years, 10-years, 16-years, or 20-years. This has resulted in the deposit of the following:

Entity	Deposit
Oregon Health and Sciences University	$10 million
Roseburg Public Schools	$6 million
City of Hillsboro	$5 million
Deschutes Valley Water District	$1 million
Total	$22 million

Legislative Fiscal Office Recommendation: Acknowledge receipt of the report.

Public Employees Retirement System
Heath

Request: Report on the implementation of Senate Bill 1566 (2018) by the Public Employees Retirement System.

Recommendation: Acknowledge receipt of the report.

Discussion: The Public Employees Retirement System (PERS) is required to report to the Joint Committee on Ways and Means every regular legislative session on the status of the Employer Incentive Fund, School Districts Unfunded Liability Fund and the Unfunded Actuarial Liability Resolution Program established by Senate Bill 1566 (2018).

The School District Unfunded Liability Fund (SDULF) creates a shared side account for school districts and is funded with the proceeds of excess estate taxes, capital gains taxes, and interest on unclaimed property and debt collections, all with certain limitations. Senate Bill 1529 (2018) distributed 82.0 percent of the revenues attributed to repatriated foreign earnings to the SDULF. The Employer Incentive Fund provides a match of up to 25.0 percent of contributions a PERS employer makes to fund a side account and is funded with 18.0 percent of Senate Bill 1529 proceeds. Finally, the Unfunded Actuarial Liability Resolution Program is a new program that is mandatory for employers who are seeking to participate in the Employer Incentive Fund.

The agency has undertaken rulemaking to establish the new programs, created a web page with information for employers on how to participate and has introduced a legislative concept (approved in the Governor's Budget) to better align the dates that applications to the Employer Incentive Fund can be accepted with the expected flow of resources into the fund. The agency also anticipates receiving approximately $11.5 million into the SDULF from interest on unclaimed property in 2019. The Governor's Budget contains an additional $100 million deposited from the General Fund into the SDULF.

School district rate relief through the SDULF will not be enough to avoid employer rate increases without dedicating additional resources to the fund. As of December 31, 2017, PERS estimates it would take $435 million to see a 1.0 percent reduction in the rates school districts have to pay. This compares to a projected increase in the collared base rates for school districts for Tier 1 / Tier 2 pensions (the rates school districts would have to pay before taking side accounts into account) from 25.43 percent during 2017-19 to 30.52 percent in 2019-21.

The Employer Incentive Fund has drawn interest from employers who would like to participate, but PERS projects a lack of resources in the fund in 2019-21 to match employer contributions, delaying the impact of any rate relief possibly achieved through the fund.

Oregon

Kate Brown, Governor

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TO: Senator Betsy Johnson, Co-Chair
Senator Elizabeth Steiner-Hayward, Co-Chair
Representative Dan Rayfield, Co-Chair
Joint Committee on Ways and Means

FROM: Kevin Olineck, Director, Public Employees Retirement System
SUBJECT: Senate Bill 1566 Status Report

Purpose

As required by Senate Bill 1566(28), the Public Employees Retirement System (PERS) is providing an update on the status of the Employer Incentive Fund, the School Districts Unfunded Liability Fund, and the Unfunded Actuarial Liability Resolution Program, as of January 2019.

Program Review

Employer Incentive Fund

The Employer Incentive Fund (EIF) provides up to a 25% match for employers who make a qualifying lump-sum payment to a side account.

The PERS Board may not accept applications for participation in the EIF until there are sufficient moneys in the fund. At this time, the sole source of revenue for EIF is directed by Senate Bill 1529(2018) and those funds are expected after July 1, 2021. However, Section (2)(c)(A) of SB 1566 requires the application process to close by December 31, 2019. Because funds will not be available in the EIF in 2019, PERS cannot accept applications before the required application close date. To remedy this conflict, PERS has requested Senate Bill 75(2019) to, among other changes, allow the Board to approve EIF applications as long as EIF moneys are projected to be available.

School Districts Unfunded Liability Fund

The School Districts Unfunded Liability Fund (SDULF) is a pooled side account that will provide rate relief to all public school districts, public charter schools, and education service districts. The SDULF has five defined revenue sources: interest on unclaimed property from the Department of State Lands; proceeds from debt collection; proceeds from estate taxes; proceeds from capital gains taxes; and a one-time payment, as prescribed in Senate Bill 1529(2018).

PERS will establish the SDULF with Treasury and expects to receive the first transfer of funds, $11,539,471 from interest on unclaimed property from the Department of State Lands in 2019. The Department of Administrative Services has reported that transfers are not expected from debt collection, capital gains or estate taxes this biennium. However, the Governor's

Recommended Budget includes an appropriation of $100 million for the SDULF in the PERS agency budget bill, House Bill 5032.

PERS does not anticipate applying a rate offset to the School Districts Pool this biennium. In order to achieve a one percent rate offset for the School Districts Pool, the SDULF would require at least $435 million.

Unfunded Actuarial Liability Resolution Program

The Unfunded Actuarial Liability Resolution Program provides information and resources to assist employers as they develop plans to improve their funded status and manage projected rate changes. Employers who receive matching funds from the EIF are required to participate in the program.

PERS surveyed employers to determine what tools and resources the employers need to better manage their UAL and the majority of employers requested a tool like the Employer Rate Projection Tool. PERS updated the Employer Rate Projection Tool with assumptions and data from the December 31, 2017 valuation and posted it to the Employers' website in January 2019. Employers also requested additional information and resources to help them understand and explain the information received in actuarial valuations. PERS is in the process of creating a series of informational pieces that will explain key actuarial concepts and how employers can leverage that information to assist with budget planning. PERS will create a new webpage on the PERS website to ensure easy access to this information.

Summary

Uncertainty surrounding revenue streams for the EIF and SDULF create challenges in planning for the amount and timing of rate relief that employers may receive through these programs. The administrative processes are in place, or have been outlined and are ready for deployment as soon as revenue is available, to ensure employers receive rate relief at the earliest opportunity.