



# Hazardous Positions Member Classification

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# Agenda

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- Current Service Level Updates
- Hazardous Position Classification
  - Definitions and Options
  - Administrative Implications
- Appendix
  - Actuarial Impact

# Current Service Levels Performance Outcomes

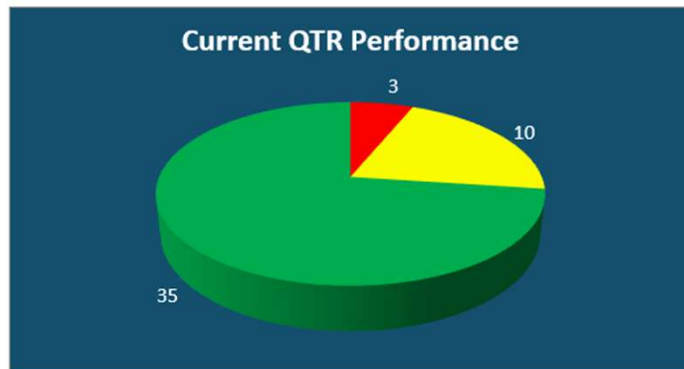
Given complexity and manual processes, PERS continues to struggle meeting internal performance standards.

## PROCESS MEASURES: Consolidated Summary

QTR : 2023 Q2 - Quarter ended June 30, 2023

Total Process Measures: 56

Total Active Process Measures: 48 (1 inactive, 4 with no data, 3 on hold)



# Current Service Levels Projects

There are a significant number of projects in flight and in pipeline.

SOP Report																
Week Ending: 9/24/23																
#	Health	Initiative Name	Project Type	Rating	Project Sponsor	Business Owner	Project Manager	Start Date	Current Phase	Phase % Complete	Phase Complete Date	Original Project End Date	Current Project End Date	Report Cycle	Last Report	Notes
<b>Active Projects &amp; Coordination Efforts:</b>																
01	Yellow	SB5049 Implementation Program	Mandated Legislative Project	87.50%	Olinick	Elledge-Rhodes	Allen	7/1/19	Execution	98%	5/30/25	6/30/21	6/30/25	Weekly	09/24/23	
02	Green	SB5049 Member Redirect Project	Mandated Legislative Project	87.50%	Olinick	Paris	Yu	7/1/19	Execution	76%	2/6/25	7/1/21	5/9/24	Weekly	09/24/23	
03	Green	SB5049 Technical Debt Project	Mandated Legislative Project	87.50%	Olinick	Elledge-Rhodes	Mundell	6/22/21	Execution	84%	2/15/24	8/31/22	4/29/24	Weekly	09/17/23	
04	Yellow	PERS Modernization Program	Enterprise-wide Program	82.50%	Olinick	Crawen	Whitney	7/1/22	Initiation	0%	TBD	6/30/21	TBD	Weekly	09/24/23	
05	Green	M365 Tenant Migration	Mandated State Coordination	78.75%	Masanga	Marrillo	Marrillo	5/31/21	Execution	70%	2/11/22	10/31/21	6/6/22	TBD	02/14/23	02/14/23: We're still actively working with EIS to configure some things to resolve technical challenges.
06	Yellow	Enterprise Portfolio Management (EPM)	Mandated SOS Project	75.00%	Elledge-Rhodes	Brown	Chapman	8/31/21	Execution	73%	12/22/23	7/10/23	1/29/24	Weekly	09/24/23	
07	Yellow	Clarity Technical Stack Upgrade	ISD Project	72.50%	Masanga	Duchering	Mundell	8/29/22	Planning	67%	TBD	6/30/23	TBD	Weekly	09/10/23	NOTE: Status Report on hold through week ending 9/24/23. Next report will be for week ending 10/01/23.
08	Green	Member Identity and Access Management	InfoSec Project	70.00%	Paris	Perry	Chapman	6/1/22	Execution	0%	12/29/23	1/21/25	1/21/25	Bi-Monthly	09/24/23	
09	Green	Annual Comprehensive Financial Report (ACFR)	Annual Coordination	68.75%	Horsford	Greaves	Brosen & Chapman	3/24/23	Execution	0%	12/22/23	12/28/23	12/28/23	Monthly	09/24/23	
10	Red	Estimate Tracker Tool	OD Support Project	56.25%	Cunningham	Nguyen Ungern	Mundell	5/18/19	Planning	93%	TBD	7/8/19	TBD	Weekly	09/10/23	NOTE: Status Report on hold through week ending 9/24/23. Next report will be for week ending 10/01/23.
11	Green	New Multifunction Device Lease	ISD Coordination	47.50%	Masanga	Marrillo	Dong	1/9/23	Execution	63%	11/7/23	1/9/23	11/29/23	Weekly	09/24/23	
12	Green	PERS Policy Workflow Process	Strategic Coordination	46.25%	Elledge-Rhodes		Hernandez	2/1/23	Planning	95%	9/30/23	7/31/23	12/31/23	Weekly	09/24/23	
13	Green	PERS Retirement Expo 2023	Strategic Coordination	46.25%	Paris	Lockwood	Martinez	4/03/23	Execution	38%	10/12/23	4/3/23	10/16/23	Weekly	09/17/23	
<b>Active Releases:</b>																
01	Green	FileNet Release 5.29 CHG 5968 & CHG 6488	Maintenance & Enhancement		Masanga	OSC	Dong	7/21/23	Release Deployment	100%	9/19/23	9/19/23	9/19/23	Weekly	09/24/23	Release Deployment to Production on 09/19/23
02	Green	FileNet Release 5.30 CHG 6405 & 6439	Maintenance & Enhancement		Masanga	OSC	Dong	7/21/23	QAT/UAT	50%	10/6/23	10/10/23	10/10/23	Weekly	09/24/23	Target Deployment Date: 10/10/23
03	Green	9.19.0 M&E Release CHG 5753, 6536, 6607, 6590, 6737, 6881, 6813	Maintenance & Enhancement		Masanga	OSC	Uribe	6/26/23	QA Regression Testing	90%	9/20/23	7/24/23	10/5/23	Weekly	09/24/23	Target Release Deployment Date: 10/5/23
<b>Activities Completed:</b>																
01																
02																
<b>Pipeline:</b>																
01	Hold	Windows Server OS Upgrade	ISD Project	80.00%	Masanga	Marrillo	Mundell	TBD	Planning		TBD	10/10/23	TBD	TBD	03/26/23	The Windows Server OS Upgrade project is on hold until June/July 2023.
02	Hold	OTS SQL Conversion	ISD Coordination	38.75%	Masanga	Masanga	Martinez	8/9/21	Execution	32%	TBD	5/6/22	5/6/22	TBD	06/11/23	Project is on Hold.
03	Hold	Backup Data Center Project (BDC)	Mandated Legislative Project	85.00%	Masanga	Marrillo	Chapman	10/3/17	Planning	63%	TBD	6/30/19	TBD	Monthly	08/06/23	Sep. 2023: Effort on hold pending EIS decision
04	Hold	Member Annual Statements (MAS) 2023	Mandated State Coordination	TBD	Paris	Armatas	Hernandez	TBD	Initiation		TBD	TBD	TBD	TBD	TBD	
05	Hold	Target Date Funds (Needs Data)	Strategic Project	TBD	Paris		Martinez	TBD	Initiation		TBD	TBD	TBD	TBD	TBD	
06	Hold	Financial Edge Replacement	Strategic Project	TBD	Horsford	Greaves	Owitt	TBD	Initiation		TBD	TBD	TBD	TBD	TBD	
07	Hold	Infrastructure Refresh (Needs Data)	Strategic Project	TBD	Masanga	Marrillo	Chapman	TBD	Initiation		TBD	TBD	TBD	TBD	TBD	
08	Hold	Azure Gov Migration	Strategic Project	TBD	Masanga	Marrillo	Hurtienne	TBD	Initiation		TBD	TBD	TBD	TBD	TBD	

# Hazardous Position Definition

As contemplated in previous bills:

“(7)(a) ‘Hazardous position’ means a position that does not meet the definition of a qualified public safety employee under section 72(t)(10)(B) of the Internal Revenue Code, but that:

“(A) Requires the person holding the position to work with or manage emergency or traumatic events in the regular course of work;

or

“(B) Carries a high risk of physical harm.

“(b) ‘Hazardous position’ includes and is limited to:

“(A) Employees of the Oregon State Hospital who have direct contact with patients; and

“(B) Telecommunicators, as defined in ORS 181A.355.”

# Membership Implications of a new member classification

A new membership classification would provide members whose jobs fit under the definition of “Hazardous Position” with two significant enhanced benefits in comparison to general service members:

1. The same multiplier for final average salary as police and fire members with a proposed effective date to be determined; and
2. A normal retirement age that is the earlier of age 60 or age 58 with 25 years of service with the last qualifying position before retirement being a hazardous position for the member’s last 60 months of retirement credit. (For the purpose of the last 60 months of retirement credit in a hazardous position requirement, services performed as an employee of the Oregon State Hospital or as a telecommunicator from 2019 and forward would be counted.)

For the purposes of actuarial determination on employer pension contributions and disability benefit funding, the employers and the PERS board are required to treat this population of members separately. This means that PERS would have to set up a completely new class of members with the requisite changes to our administrative system.

**Accompanying analysis uses 900 current 911 telecommunicators and an estimated 2,200 Oregon State Hospital employees.**

# Tax Implications of Further Additions to Definition of “public safety employee”

PERS is a qualified governmental defined benefit plan under Internal Revenue Code (IRC) § 401(a). The purpose and benefit of being a federally qualified retirement plan is the deferral of income taxes on contributions into the system as well as the earnings on those contributions until they are distributed to the member. To maintain its tax qualified status, PERS must comply with the provisions of IRC § 401(a) and the related Treasury Regulations. When a plan provision conflicts with a specific requirement for maintaining plan qualification, it puts the plan at risk of losing its tax qualified status. If the plan were to lose its tax qualified status, contributions would be taxable to the members, and all the accumulated contributions and earnings on the fund would become subject to federal income tax.

Congress has the power to lay and collect taxes. As explained above, the benefit of being a tax qualified plan is the deferral of federal income taxes. The decision of whether PERS is compliant with the federal requirements and is, therefore, a qualified governmental defined benefit plan under the Internal Revenue Code is a decision that is left entirely up to the Internal Revenue Service (IRS). The IRS can decide, after an audit of our system, to revoke the plan’s tax qualified status.

# Hazardous Position Member Classification

## An alternative to expanding the definition of “public safety employee”

- As we add positions to the definition of “police officer” in ORS 238.005(19), particularly positions that do not meet the definition of “qualified public safety employee” in IRC 72(t), we risk losing our tax qualified government plan status with the federal government. This would expose the plan (and its members) to additional tax liability.
- However, more and more, unions and the legislature want to acknowledge the hard conditions of jobs, that, while they are not strictly “public safety” jobs, involve a high level of physical and/or mental stress.
- PERS has been working with union stakeholders- more intensely since the 2022 interim, but we’ve recognized this issue as early as 2017- to craft this new member classification idea.
- This classification sets retirement age in such a way as to reduce the risk of losing plan qualification.
- It begins with 911 telecommunicators and Oregon State Hospital employees who have direct contact with patients.
  - However, a definition should be included in any iteration of language to give legislators the opportunity to include other positions, should they meet the definition.



# Other State Plans' Actions Related to Hazardous Positions

The agency has corresponded with and had meetings with other state systems to see if any had a classification of this type.

- New York indicated they have a classification for physically taxing positions; Pennsylvania indicated they have a hazardous duty classification based on personal safety (not stress), and; Minnesota indicated they have a plan for correctional employees that covers classifications that have 75% or more offender patient contact in correctional facilities and hospitals - including officers, teachers, psychologists, medical professionals, and trade professionals.
- Washington State's plan is the most similar to the concept PERS has developed and in their most recent legislative session, telecommunicators were added to their plan. The next slide is an explanation and comparison of the Washington plan and the PERS concept.

# Other State Plans' Actions Related to Hazardous Positions

Washington State has multiple plans that cover different classifications of employees as opposed to PERS covering all members with different classifications under one plan. In the WA plans compared here, vesting, benefit formula, and final average salary rules are the same. For purposes of the hazardous position concept, only the following Washington State plans are compared:

- **PERS Plan 2** – covers general service employees
- **Public Safety Employee' Retirement System (PSERS)** – covers certain public employees whose jobs contain a high degree of physical or psychological risk to their own personal safety and who provide public protection of lives and property, but who are not eligible for membership in the law enforcement officers' and firefighters' retirement system (eligible employees include employees of the department of corrections, department of social and health services, department of veterans affairs, department of natural resources, parks and recreation, gambling commission, liquor and cannabis board, county corrections)
- **Law Enforcement Officers and Fire Fighters (LEOFF)** - a law enforcement officer is someone employed by an LEOFF employer and is fully commissioned and empowered to enforce the laws of the state of Washington, and a firefighter is someone who has the legal authority and primary responsibility to direct or perform fire protection activities (preventing, controlling and extinguishing fires).

**Washington State Patrol Retirement System (WSPRS)** - covers commissioned state patrol officers

Plan	Normal Retirement Age	Early (Reduced) Retirement Age
<b>OPSRP General Service</b>	65 or 58 and 30 YOS	55
<b>OPSRP P&amp;F</b>	60 and 5 YOS or 53 and 25 YOS	50 and 5 YOS
<b>OPSRP Proposed Hazardous position</b>	60 and 5 YOS or 58 and 25 YOS	55
<b>WA PERS Plan 2</b>	65 and 5 YOS	55 and 20 YOS
<b>WA PSERS</b>	65 and 5 YOS or 60 and 10 YOS	53 and 20 YOS
<b>WA LEOFF</b>	53 and 5 YOS	50 and 20 YOS
<b>WA WSPRS</b>	55 (active) or 60 (inactive) and 5 YOS or 25 YOS	55 (inactive) and 5 YOS

# Administrative Implications

The creation of a brand-new membership classification within PERS would be a large administrative lift both in terms of economic resources and manpower.

- Extensive new programming for the PERS jClarety system to account for the “Hazardous Position” service just like we currently have for P&F service and general service.
- The inevitable future expansion of the membership population within this new classification would require additional administrative resources.
- For the purposes of determining employer pension contributions and disability benefit funding, the employers and the PERS board are required to treat this population of members separately (with distinct and separate employer reporting changes).
- Overhaul of existing PERS forms and creation of new forms to account for this new classification (intake and review team)
- Retirement education team would need to update its print material and presentations to account for this new membership class.
- Employer Reporting and Calculations team would also require additional procedures and training to process this new classification.

# Order of Magnitude Costs and Timing

The creation of a brand-new membership classification within PERS would be a significant administrative lift both in terms of economic resources and manpower as noted in the previous slide.

We have estimated the cost to implement a change of this magnitude to be \$32 to \$38 million (\$6m in inflationary costs depending on start date). This estimate has a plus/minus confidence factor of 50%, which is standard project estimation prior to establishing detailed business requirements.

Any bill introduced to this effect would require an operative date of up to forty-eight to sixty months- as this is the time it would take the agency to implement a change of this magnitude.

This cost involves the administrative tasks noted in the previous slide, but, more concretely with the other projects that the agency is undertaking, would involve:

- Approximately 40 FTE (combination of permanent and limited duration across 11 sections)
- \$9m in internal staff costs
- \$23m in contract resources and services & supplies (not included in FTE number)

# Other Considerations

- PERS currently has twenty-one months of effort left to fully implement all elements of SB 1049. This will ultimately be a six-year, \$75 million implementation.
- PERS received \$9.6 million this biennium to begin initial stages of overall system modernization (which was delayed for six years due to SB 1049). Our modernization efforts would make legislative implementation easier and more cost-effective, particularly if applied to large-scale projects such as what is contemplated with adding a hazardous position class.
- If trying to do this and Modernization concurrently, we would not have the expertise/resources to execute both successfully and would be building throwaway functionality.
- We could tie this into modernization efforts to leverage the efforts in that program beginning in 2029 based on our initial modernization program roadmap.
- Trying to “force” an early implementation date will, in all likelihood, have significant implications on PERS’ capabilities to deliver services to our 405,000 members and 900 employers and our \$8.5 billion annual cashflow of benefit payments and contributions.

# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



## Thank You



# Actuarial Costs

## Option 1 (1.8% Multiplier)

Actuarial estimates show a 3.3% to 3.9% normal contribution rate range of increase over and above the general service normal cost rate due to the type of increased benefits provided.

<b>Demographics same as OPSRP GS</b>	
Average Age	44.0
Average Service	7.1
Average Salary	\$60,308
Percent Service Retire	40.30%
OPSRP GS Normal	9.89%
OPSRP PF Normal	14.68%
Hazardous Normal	13.71%
<b>Annual cost increase to plan</b>	<b>\$7,150,508</b>

<b>Demographics same as all PERS</b>	
Average Age	43.8
Average Service	7.5
Average Salary	\$63,453
Percent Service Retire	41.66%
OPSRP GS Normal	9.89%
OPSRP PF Normal	14.68%
Hazardous Normal	13.68%
<b>Annual cost increase to plan</b>	<b>\$7,459,775</b>

### Assumptions

- Age only retirements have same normal cost as P&F
- Age + service retirements have normal cost midway between GS and P&F
- Assume that 3,100 employees are initially impacted

# Actuarial Costs

## Option 2 (Multiplier reduced to 1.50%)

Actuarial estimates show a 1.3% to 1.5% normal contribution rate range of increase over and above the general service normal cost rate due to the change in retirement eligibility ages only.

Demographics same as OPSRP GS	
Average Age	44.0
Average Service	7.1
Average Salary	\$60,308
Percent Service Retire	40.30%
OPSRP GS Normal	9.89%
OPSRP PF Normal	14.68%
Hazardous Normal	11.43%
<b>Annual cost increase to plan</b>	<b>\$2,877,123</b>

Demographics same as all PERS	
Average Age	43.8
Average Service	7.5
Average Salary	\$63,453
Percent Service Retire	41.66%
OPSRP GS Normal	9.89%
OPSRP PF Normal	14.68%
Hazardous Normal	11.40%
<b>Annual cost increase to plan</b>	<b>\$2,974,119</b>

### Assumptions Option 2

Analysis is the same, except that multiplier is 1.50% rather than 1.80%

Multiply resulting normal cost by 0.8333 (1.50% /1.80%)



# Actuarial Costs

## Unfunded Actuarial Liability

Because “hazardous position” members would be able to use prior service in the same position to qualify for the reduced retirement age, this will create an amount of unfunded actuarial liability, as those increased benefits will not have time to be funded within the plan. From an equity perspective, this portion of the unfunded actuarial liability should be charged directly to the affected employers, rather than spread across the entire UAL pool, as that is currently pooled at one rate for every employer under OPSRP.

The amount of the increase to the UAL is indeterminate at this time, as we do not know how much of the affected population has the years of service eligible in their current position to utilize the hazardous position retirement age at the effective date.