



Legislative Fiscal Office  
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 2024 Regular Session

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**Bill Title:** Relating to adjustments in classifications under the Public Employees Retirement System.

**Government Unit(s) Affected:** Board of Parole and Post-Prison Supervision, Cities, Counties, Department of Agriculture, Department of Corrections, Department of Emergency Management, Department of Forestry, Department of Human Services, Department of Public Safety Standards and Training, Department of State Police, Department of the State Fire Marshal, District Attorneys, Higher Education Coordinating Commission, Metro, Oregon Health Authority, Oregon Liquor and Cannabis Commission, Oregon Lottery Commission, Oregon Military Department, Oregon Youth Authority, Special Districts Association of Oregon, TriMet, Department of Justice, Public Employees Retirement System, Judicial Department

**Summary of Fiscal Impact**

2023-25 Biennium	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds	Positions	FTE
Public Employees Retirement System	\$ -	\$ -	\$ 2,037,532	\$ -	\$ 2,037,532	27	8.71
<b>Total Fiscal Impact</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,037,532</b>	<b>\$ -</b>	<b>\$ 2,037,532</b>	<b>27</b>	<b>8.71</b>

2025-27 Biennium	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds	Positions	FTE
Public Employees Retirement System	\$ -	\$ -	\$ 2,200,000	\$ -	\$ 2,200,000	-	-
<b>Total Fiscal Impact</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,200,000</b>	<b>\$ -</b>	<b>\$ 2,200,000</b>	<b>-</b>	<b>-</b>

- The fiscal impact for the 2023-25 biennium is \$2 million Other Funds and 27 limited duration positions (8.71 FTE).
- The fiscal impact for the 2025-27 biennium is for contracted services, predominantly for information technology professional services.
- There is an impact to participating employer contribution rates, benefit payments, and the Unfunded Actuarial Liability.

**Measure Description**

Benefit Modification

The measure contains the following provisions modifying select Public Employee Retirement System (PERS) pension benefits:

1. Lowers prospectively the normal retirement age for police officers and firefighters under the Oregon Public Service Retirement Plan (OPSRP) with the normal retirement age changed from the earlier of age

60 or age 53 if the member has 25 or more years of retirement credit to the earlier of age 55 or age 53 if the member has 25 or more years of retirement credit. This provision applies to active and inactive non-retired members (not employed in a PERS-eligible position but who retains a vested right to a future PERS retirement benefit due to prior PERS-eligible employment). This benefit becomes operative on January 1, 2025 (2023-25 biennium) and will be reflected in employer contribution rates during the 2025-27 biennium (2023 actuarial valuation).

2. Recategorizes prospectively elected district attorneys from General Service to Police and Fire members in Tier One, Tier Two, and OPSRP pension plans, which would provide higher benefit multipliers and a lower normal retirement age. Applies to active and inactive non-retired members. This benefit becomes operative on January 1, 2025 (2023-25 biennium) and will be reflected in employer contribution rates during the 2025-27 biennium (2023 actuarial valuation).
3. Recategorizes prospectively Oregon State Police (OSP) forensic scientists and evidence technicians, at the discretion of the OSP Superintendent, in Tier One, Tier Two, and OPSRP pension plans from General Service to Police and Fire members, which would provide higher benefit multipliers and a lower normal retirement age. Applies to active and inactive non-retired member. This benefit becomes operative on January 1, 2025 (2023-25 biennium) and will be reflected in employer contribution rates during the 2025-27 biennium (2023 actuarial valuation).
4. Establishes a new “hazardous position” classification within the OPSRP pension plan with higher benefit multipliers and earlier normal retirement eligibility than OPSRP General Service (state and local members). The final average salary benefit multiplier would be 1.8% of pay for service accrued in the new hazardous position classification. The normal retirement age would be the earlier of age 60, or age 58 with 25 years of retirement credit. Membership in the new classification is limited to: (a) qualifying employees of the Oregon State Hospital employees (“Oregon State Hospital” is undefined by the measure); and (b) telecommunicators under ORS 181A.355. This benefit becomes operative on January 1, 2030 (2029-31 biennium) and will be reflected in employer contribution rates during the 2031-33 biennium (2029 actuarial valuation). This benefit is retroactive back to January 1, 2019 for qualifying members and applies to active and inactive non-retired members. While the measure is silent at whose discretion hazardous position classifications are made, such decisions are presumably made by member’s employers through administrative rule. Tier One or Tier Two members do not qualify for participation in the hazardous position classification, even if their positions would otherwise qualify. The PERS Board is required to separately establish the pension liability of employers for the hazardous position classification and charge employer contribution rates accordingly. The measure allows PERS to take action on the new hazardous position classification change before January 1, 2030.

PERS is a qualified governmental defined benefit plan under Internal Revenue Code (IRC §401(a)). Any change to the PERS defined benefit plan therefore needs to be compliant with federal code to avoid having the plan’s tax qualified status revoked and exposing PERS members to an additional tax liability. Therefore, any benefit changes related to providing enhanced benefits must substantively fall within the Internal Revenue Service definition of a “qualified public safety employee,” under the IRC 72(t).

Upon retirement, active and inactive PERS member with accrued General Service pension benefits would under the modified benefits provided by this measure receive a “hybrid” benefit comprised of any prior General Service benefit and the enhanced Police and Fire benefit or a hazardous position benefit.

#### Estimated Impact to Unfunded Accrued Liability

PERS’ consulting actuary estimates that the lowering of the normal retirement age for police officers and firefighters under would increase on a one-time basis the Unfunded Actuarial Liability (UAL) by \$110 million total funds.

The current estimate of the 2023 UAL, exclusive of this measure, is \$22.8 billion with the funded status of the system of 78% with side accounts. The impact to recategorizing elected district attorneys from General Service to Police and Fire members and recategorizing OSP forensic scientists and evidence technicians is expected to have a de minimis impact on the UAL.

The consulting actuary is currently unable to accurately estimate the UAL impact of the new hazardous benefit plan, as the actuary requires population-specific demographic data from effected employers to calculate a more precise estimate (e.g., mortality, retirement, disability incidence, termination, salary increase factors or Final Average Salary, etc.). Based on initial estimates using all 911 telecommunicators and all Oregon State Hospital employees, there could be an increase in normal cost to affected employers of 2.75% and an additional UAL rate for affected employers of 2.20%, for an increase in affected employer rates of 4.95%.

#### Employer Contribution Rate Changes

Employer contribution rates have already been adopted and published by the PERS Board for the 2023-25 biennium. These rates will remain unchanged for the 2023-25 biennium regardless of the passage of this measure. In the fall of 2023, the PERS Board, released **advisory** employer contribution rates for the 2025-27 biennium with final rates planned for **adoption** in the fall of 2024, which will need to account for the impact of this measure other than the hazardous benefit classification.

The changes to employer contribution rates under this measure by the four benefit modifications represent the change of reducing General Service pension contribution rates and increasing either Police and Fire or Hazardous pay classification pension contribution rates.

PERS' consulting actuary estimates that the lowering of the normal retirement age for police officers and firefighters in OPSRP will increase employer contribution rates from 10.55% General Service to 15.14% Police and Fire or by 4.59% (change of +44%). PERS' consulting actuary estimates that the lowering of the normal retirement age for police officers and firefighters is that OPSRP will increase employer contribution rates from the entire OPSRP rate pool, both General Service as well as Police and Fire, from 17.76% to 18.62% or by 0.86% (change of +4.84%). Stated differently, the lowering of the normal retirement age for police officers and firefighters means that OPSRP will increase employer Police and Fire contribution rates by 0.79% and the UAL contribution rate for the entire OPSRP rate pool by 0.07%. This is currently estimated to add \$10 million in additional employer contributions for Police and Fire employers and \$9.7 million across all OPSRP employers per biennium (based on 2022 biennialized payroll costs).

The consulting actuary for PERS estimates that the creation of a new hazardous position classification will increase affected employer rates (those employers who employ members in hazardous positions) by an average of 4.95% above their current general service contribution rate. This will apply to employers who have hazardous position members on their payroll.

#### Employer Contribution Rate Changes - Revenue

Of note is that city and county employees who may qualify as telecommunicators under the measure may be either partially or likely fully funded by a state E911 tax that is passed through to local governments by the Department of Emergency Management (i.e., tax for emergency communication under ORS 403). No revenue analysis has been undertaken to evaluate whether the existing statutory tax rate is sufficient to fund higher PERS employer contribution rates.

#### Reporting

PERS is required to submit biennial reports to the legislature on the progress of implementing the hazardous position classification up until January 2, 2030.

**Fiscal Analysis**

The fiscal impact scope is limited to the 2023-25 biennium and the 2025-27 biennium; however, based on the operative date of the measure for hazardous position classifications (January 1, 2030), there will be fiscal impacts outside of the standard two-biennia fiscal impact timeframe starting in the 2027-29 biennium.

Public Employees Retirement System

PERS' administrative and implementation costs are estimated to be \$2 million Other Funds and 27 limited duration positions (8.71 FTE) for the 2023-25 biennium and \$2.2 million Other Funds for services and supplies for the 2025-27 biennium. The 2023-25 biennium funding will be used to implement the Police and Fire provisions of the measure through a non-automated approach as well as administrative cost to implement the new benefit plans (e.g., information technology, benefit calculations, policies and procedure updates, financial reporting, training, outreach, etc.). Funding for the 2025-27 biennium will be used to automate the Police and Fire provisions of the measure, including the cost of consulting actuary.

PERS administrative costs are funded under ORS 238.610 that directs that the administrative operations expenses for PERS are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

For the 2023-25 and 2025-27 biennium, employer contributions received by PERS, and benefit payments made by the agency, which are not subject to expenditure limitation (i.e., Nonlimited), are indeterminate.

The following table provides the estimated fiscal impact for each of the next four biennia.

Biennia	2023-25 Biennium	2025-27 Biennium	2027-29 Biennium	2029-31 Biennium	Total
Personal Services	\$ 2,037,532	\$ -	\$ 9,776,195	\$ -	\$11,813,727
Services and Supplies	\$ -	\$ -	\$ 197,000	\$ -	\$ 197,000
Professional Services - Information Technology	\$ -	\$ 2,100,000	\$ 3,100,000	\$ 4,500,000	\$ 9,700,000
Professional Services - Consulting Actuary	\$ -	\$ 100,000	\$ 800,000		\$ 900,000
Total	\$ 2,037,532	\$ 2,200,000	\$ 13,873,195	\$ 4,500,000	\$22,610,727
Positions	27	-	56	0	83
FTE	8.71	-	43.71	0	52.42

The following table shows the estimated fiscal impact biennia by pension benefit change. The cost to implement the Police and Fire provisions is estimated to total \$4.2 million and 27 limited duration positions (8.71 FTE) in the 2023-25 and 2025-27 biennia. The cost to implement the hazardous benefit plan is estimated to total \$18.4 million Other Funds and 56 limited duration positions (43.71 FTE) in the 2027-29 and 2029-31 biennia.

Biennia	2023-25 Biennium	2025-27 Biennium	2027-29 Biennium	2029-31 Biennium	Total
Police and Fire Changes	\$ 2,037,532	\$ 2,200,000	\$ -	\$ -	\$ 4,237,532
Hazardous position classification	\$ -	\$ -	\$ 13,873,195	\$ 4,500,000	\$18,373,195
Total	\$ 2,037,532	\$ 2,200,000	\$ 13,873,195	\$ 4,500,000	\$22,610,727
Positions	27	-	56	0	83
FTE	8.71	-	43.71	0	52.42

PERS has two ongoing, separately funded, large-scale information technology projects, which are the completion of SB 1049 (2019), a PERS reform measure, and a modernization effort, which is in early initiation. PERS also has a few lesser ongoing information technology initiatives. PERS' existing information technology platform is not sufficiently capable or robust enough to make the required Police and Fire changes in a timely, cost-effective manner or add a new benefit plan for hazardous positions.

Therefore, the PERS fiscal impact is premised on the following priorities: (1) completion of SB 1049, which is unimpacted by this measure and has an estimated completion date that remains unchanged at June 2025; (2) completion of Police and Fire classification changes in this measure using a manual process for the duration of 2025 until such time as an automated process can be put into place, which is estimated to be January 1, 2026; (3) continue work on a multi-biennia modernization program that has a six-year development and implementation effort, followed by two years of stabilization; and (4) develop the hazardous classification pension plan by January 1, 2030. PERS states, however, that the measure may risk delaying the completion of the modernization project. The simultaneous implementation of these four information technology initiatives, along with maintaining current operations, will be a challenge to PERS.

#### Employer Contribution Rate Impacts

The increase to state and local governments employer contribution rates from the benefit changes in this measure are estimated above. The Police and Fire benefit changes will need to be added to the calendar year 2023 actuarial valuation, which will then be used by the PERS Board to determine adopted 2025-27 employer contribution rates. This will indirectly impact select county governments that do not participate in the PERS system, but instead independently operate and fund their own retirement system under the statutory condition that the county retirement system is equal-to or better-than the PERS benefit. There will be a cost to all employers for associated information technology changes and reporting costs are also indeterminate.

Beginning with the 2031-33 biennia, state and local governments with hazardous position will also experience increased employer contribution rates, and such cost are estimated above.

#### **Relevant Dates**

This measure takes effect January 1, 2025.

Sections 2, 3, and 5 to 11, related to hazardous positions, are operative January 1, 2030.

Section 12, the PERS study on the likely liability of participating public employers for members in hazardous positions, is operative July 1, 2027 and repealed January 2, 2030.