



Oregon

Tina Kotek, Governor

Public Employees Retirement System

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February 7, 2024

TO: House Committee on Emergency Management, General Government, and Veterans

FROM: Kevin Olineck, Director, PERS

SUBJECT: HB 4045 Written Testimony, February 7, 2024

Thank you for the opportunity to provide both written and oral testimony on HB 4045. To start, PERS is neutral on this bill. The agency would like to provide information to the committee regarding implementation processes/tasks, and the costs of both implementation and costs to the PERS plan.

New Hazardous Position Classification

As has been noted by PERS in previous committee presentations, PERS has concerns around the definition of "police officer" in ORS 238.005 where it does not meet the federal definition of "public safety employee", under the Internal Revenue Code, 26 USC Section 72(t)(10)(B). A public safety employee is defined as: "any employee of a State or political subdivision of a State who provides police protection, firefighting services, emergency medical services, or services as a corrections officer or as a forensic security employee providing for the care, custody, and control of forensic patients for any area within the jurisdiction of such State or political subdivision". The new Hazardous Position classification alleviates some of our concerns in this area.

OPSRP P&F Retirement Age Implementation

The change to the retirement age may not appear to be overly onerous to implement. However, given the complexity of the PERS system, implementation programming of the lowering of the OPSRP P&F retirement age, effective January 1, 2025 will delay both the final work packages of Senate Bill (SB) 1049 (2019) and the initial projects of our Modernization Program.

As an example, IT staff and developers are currently programming in our jClarety (our pension administration system) calculations module for the last two work packages of SB 1049.

Unfortunately, as mentioned in my testimony, the complication with changing the retirement age is that it touches nearly every part of the system that a member interacts with, including calculations, estimates, data integrity, death, disability, and actuarial equivalency factor tables. This change would not involve simply changing a number in a table, as currently all of our age eligibility requirements are hard coded into the system. This change would involve the most work within our calculations module initially, which is the main reason it would conflict with SB 1049 work. The agency has been told by legislative fiscal staff, as well as legislators on the Joint Committee on Ways and Means that our scope of work (and budget allocation) for SB 1049 cannot be changed. Therefore, this would have to be done separately from SB 1049 and would require double regression testing and open up the agency to a level of risk that is not appropriate for such a vital part of our system.

Therefore, with an implementation date of January 1, 2025, PERS would begin implementation for that first year on a manual basis only. After the conclusion of programming for SB 1049, the agency would then turn to programming these changes into our core pension administration system.



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The current implementation time regarding programming is approximately one year and uses current resources. We would ask that the OPSRP P&F Retirement age effective date be moved to January 1, 2026, to avoid conflict with the end of SB 1049 implementation and allow the agency to completely integrate this change into our current technology and avoid adding another manual process. It should be noted that the change in the effective date will not result in a lower fiscal impact to implementation cost. This cost comes from current staff time and effort as well as IT contractors to support the internal IT staff for development work. This programming work would still need to be completed, regardless of effective date. Having the effective date moved to January 1, 2026 would allow the agency to fully implement this change and the required programming before the effective date and eliminate the need to process this change on a manual basis.

District Attorneys as Police & Fire, including Forensic Scientists at Oregon State Police as Police & Fire

The agency would just like to note that, because of frequent changes to the definition of “police officer” in ORS 238.005, PERS is practiced at implementing these changes. This change would require communication to affected employers, and training and education on the part of our Employer Service Center. If the bill only adds District Attorneys to the definition, this amount would equate to about \$150,000 for the agency. The committee discussed the -5 amendment to HB 4045 in its public hearing on February 6, 2024, and for the agency to administer this amendment at the same time as the District Attorneys come into the same definition, we could duplicate some of the work regarding communications. According to the agency’s understanding, both groups are employees of the State of Oregon, and therefore we would work directly with that employer regarding changing the classification of these members.

Costs

Work After Retirement:

In public hearing testimony, the League of Oregon Cities mentioned eliminating the sunset on the Work After Retirement portion of SB 1049. Representative Conrad asked the agency for more information about Work After Retirement, which we will provide here.

The Work After Retirement provisions allow PERS retirees to work (generally) unlimited hours after retirement and continue to receive their PERS pension payments. This program existed (with hourly limits) before SB 1049, but with the passage of SB 1049, hourly limits were removed, and employers began to be charged contributions on these working retirees. The sunset date for this program was just recently extended to the end of 2034. PERS retirees are not allowed to continue accruing pension benefits in addition to their payments while they are working after retirement. Instead, these employer contributions are allocated directly to paying down the current systemwide unfunded actuarial liability. In 2021 the program brought in over \$42 million in contributions, in 2022 this amount was \$46 million. We do not yet have the numbers for 2023 Work After Retirement contributions.

With regard to Work After Retirement contributions, the legislative intent of SB 1049 was to use those contributions to lower employer contribution rates by assisting in paying down the current



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accrued liability. Its intent was not to fund future benefit enhancements. During this legislative session, the agency will be presenting on a Budget Note report on SB 1049 where we will be responding to one aspect of the budget note: "Whether SB 1049 (2019) is meeting financial objectives." This will include me discussing the impact of WAR on reducing employer contributions through a reduction in the current unfunded actuarial liability.

The agency cannot comment on the benefits employers are seeing or not seeing within their businesses regarding the expansion of work after retirement.

Implementation:

Hazardous Position: \$19-22 million, Approximately 30 FTE (full time equivalent)- this would be a combination of permanent and limited duration positions across 11 sections, \$10 million in internal staff costs, and \$9 million in contract resources and services & supplies (not included in FTE number). This was outlined during our November 7, 2023 interim presentation to this committee.

Lowering OPSRP P&F retirement age: \$4 million, including approximately 8 FTE of effort, no new staff, \$1.9 million in internal staff costs, and \$2.1 million in contracting costs.

Adding District Attorneys to P&F: Approximately \$150,000 to allow for communication work to employers, and individual outreach and education to employers from our Employer Service Center.

Actuarial Costs to the PERS Plan:

Hazardous Position: OPSRP Normal Cost rate increase of 2.75%. UAL rate increase: 2.20%. Participating employers (State agencies, and any public employers employing 911 telecommunicators) can expect contribution rates to go up approximately 4.95% above their current general service contribution rate. The average general service normal cost rate based on the December 31, 2022 actuarial valuation is 10.55% of payroll.

	12/31/2022 Valuation: OPSRP General Service	12/31/2022 Valuation: Estimated OPSRP Hazardous Position	Change
OPSRP normal cost rate	10.55%	13.30%	2.75%
Regular OPSRP UAL Rate	2.62%	2.62%	0.00%
Additional hazardous position UAL rate	N/A	2.20%	2.20%
Total OPSRP pension rate*	13.17%	18.12%	4.95%

OPSRP P&F Retirement Age: 0.79% Normal Cost rate increase (Contribution rate increase for employers who have OPSRP P&F payroll). UAL increase: Approximately \$110 million, or contribution rate of 0.07% (all employers), for a total contribution rate increase of 0.86% for employers with OPSRP P&F payroll.



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Advisory 2025-2027 OPSRP Pension Total Contribution Rates on Police & Fire Payroll (% of Payroll)

	OPSRP Police & Fire Normal Cost	Uncollared OPSRP UAL	Total
12/31/2022 Pension Valuation Results (Age 60 or age 53 with 25 years of retirement credit)	15.14%	2.62%	17.76%
	---Contribution Increase Under Scenario---		
Lower Normal Retirement to Age 55 or age 53 with 25 years of retirement credit	0.79%	0.07%	0.86%

Adding elected DA's to P&F: Negligible. These members would be moved from employer 1000 (state agency)'s General Service payroll amount to their Police & Fire payroll amount, with the higher contribution rate charged there. As we understand it though, this would only add a maximum of 36 members to this large employer's P&F payroll. The state agencies also participate in the State and Local Government Rate Pool (Tier One/Tier Two), and the OPSRP rate pool (OPSRP members), so this effect on other employers would be diluted. Adding forensic scientists (approximately 125 members) to P&F will result in the same negligible amount, as they are also State Agency employees.

Sincerely,

Kevin Olineck
PERS Director