LFO
LEGISLATIVE FISCAL OFFICE

2025-27 Budget Review

Public Employees Retirement System

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	17,250,000	-	-	-
Lottery Funds	15,091,192	28,527,388	28,527,388	44,911,479
Other Funds	160,709,008	177,462,596	150,788,954	195,151,442
Other Funds (NL)	12,782,575,667	13,523,120,517	15,243,591,683	15,243,591,683
Total Funds	**12,975,625,867**	**13,729,110,501**	**15,422,908,025**	**15,483,654,604**
Positions	429	466	391	451
FTE	424.68	445.40	391.00	447.40

* Includes legislative and administrative actions through December 2024.

PROGRAM DESCRIPTION

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, public school districts; statutory judges, and participating cities, counties, and special districts in Oregon. This includes defined benefit or pension program(s) as well as a defined contribution program under the Individual Account Program. PERS also administers a retiree health insurance program, as well as a voluntary deferred compensation program for state agencies and some local governmental units. PERS administers an Employer [Unfunded Actuarial Liability] Resolution Program to assist employers in managing their projected employer rate changes.

A five-member Public Employees Retirement Board has broad authority for operation of the system. Day-to-day operations are carried out by the Board-appointed director and agency staff. A separate entity, the Oregon Investment Council (OIC), with the assistance of the Investment Division of the State Treasury, oversees the investment of retirement system and deferred compensation trust fund assets, which are predominately managed by private investment firms.

The PERS budget is organized into the following five benefit programs, which are budgeted as Other Funds Nonlimited: Tier One, Tier Two, and Judge Member Pension; Employer Resolution Programs; Retirement Health Insurance Programs; Oregon Public Service Retirement Pension Program; and Individual Account Program or defined contribution component.

Administratively, the PERS budget is further organized into the following six divisions, which are budgeted as Other Funds: Central Administration Division; Financial and Administrative Services Division; Information Services Division; Operations Division; Compliance, Audit, and Risk Division; and Core Retirement System.

PERS is a pre-funded retirement system with investment income providing approximately 73% of the revenue needed to fund pension and health benefit payments with the remainder coming from employer contributions (21.5%) and member contributions (3.9%). ORS 238.610 directs that the administrative operations expenses for the agency 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. The Employer Incentive Fund (EIF) is supported with Lottery Funds from sports betting.

BUDGET ENVIRONMENT

PERS is ranked as the second most complex retirement system in North America and, consequently, one of the costliest to administer. PERS' objective is to fund long-term liabilities and maintain the solvency of the retirement system. PERS has total assets of $82.4 billion, of which $5.4 billion are side accounts or pre-paid employer contributions, liabilities of $106.4 billion, and Unfunded Actuarial Liability (UAL) of $24 billion with a funded status of 78.8% (2023 actuarial valuation). The assumed earnings rate is currently 6.9%.

Employer Contribution Rates: For the 2025-27 biennium, employer contribution rates for state government agencies, which exclude state universities, community colleges, school districts, and educational service districts, will average 21.91% for $7.5 billion in PERS-eligible payroll costs, resulting in a projected employer contribution of $1.6 billion total funds. The budgeted rate includes an average offset of 0.94% (2.4% for Tier One and Two and 0.65% for OPSRP, subject to payroll limit of $3,688 for 2024) for the redirection of member contributions and a 4.39% offset for the state's common side account. The PERS Board's recently modified rate collar policy remains in place, which is a reduction of 0.06% for the OPSRP, but no change in employer rates for Tier One and Tier Two UAL.

SB 1049 (2019) Implementation: SB 1049 was a legislative initiative to primarily address future PERS employer contribution rate increases and included five specific components that PERS treated as projects: (1) work after retirement; (2) salary limits; (3) member redirect; (4) employer programs; and (5) member choice. The "member redirect" project is the only incomplete project at this time, and PERS has indicated that this project will be completed by June 30, 2025. The total cost of implementing SB 1049 is estimated to be $68 million Other Funds.

HB 4045 (2024) Implementation: HB 4045 lowers the Oregon Public Service Retirement Plan (OPSRP) Police and Fire retirement age from 60 to 55 for members with less than 25 years of service; prospectively recategorizes elected district attorneys from General Service to Police and Fire members in the Tier One, Tier Two, and OPSRP pension plans; and prospectively recategorizes 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. These changes became effective January 1, 2025. Beginning January 1, 2030, the measure also directs the establishment of a new "hazardous position" classification within the OPSRP pension plan. The measure will be implemented over the 2023-25 to 2029-31 biennia at an estimated cost of $22.6 million. PERS states that the implementation of HB 4045 may risk delaying the completion of the modernization project, discussed below.

Modernization: PERS has initiated a modernization program for the agency. The proposed scope of PERS modernization is generally defined by PERS as focusing solely on an expansive effort to only modernize the agency's existing ORION System, as well as add new applications, functionality, and capabilities via a new cloud-based architecture platform. This effort would also include non-information technology business process engineering (e.g., organizational change management), and is also expected to require changes to statute. A more complete scope of PERS modernization could include far more than just the modernization of the ORION System and its supporting business processes. The initial PERS proposal for modernizing just the ORION System has a multi-biennia cost estimate of $150.4 million, which includes $128.1 million for implementation and $22.3 million for five years of post-implementation operating costs. These estimates are expected to materially change as the program and component projects are more fully developed and understood. No estimate was provided for ongoing operation and maintenance costs. At present, concerns have arisen around the project's scope, schedule, and governance.

Disaster Recovery/Business Continuity/Backup Data Center: After five biennia of legislative direction, PERS co-located the agency's on-site data center at the Department of Administrative Services State Data Center (DAS SDC). During backup/disaster recovery discussion, DAS Enterprise Information Services directed PERS to transition from co-location to their managed services model so as to make it possible to take full advantage of the DAS SDC security environment and other enterprise data services (including disaster recovery and backup services). These services have eliminated the need for PERS to develop a warm-site for data backup and disaster recovery. PERS has estimated that they will be fully transitioned to the managed service model by end of calendar 2025 and be able to leverage the state's resiliency site by end of calendar 2026.

School Districts Unfunded Liability Fund: SB 1566 established a School Districts Unfunded Liability Fund (SDULF). The PERS Board is required to create this pooled side account for school districts and proportionately distribute the side account among all school districts as an offset to employer contribution rates. In addition, three SDULF revenue provisions are slated to be repealed or sunset during the 2023-25 biennium: excess capital gains (limited to calendar years 2019, 2021, and 2023); excess estate tax (limited to calendar years 2019, 2021, and 2023); and excess debt collections (December 31, 2024). Of these revenue streams, the unclaimed property transfer has produced revenue for the SDULF. The unclaimed property transfer provision will sunset during the 2027-29 biennium on January 2, 2027. Of note is that the SDULF sunsets on July 1, 2042.

Since the SDULF was established in SB 1566 (2018), there have been no expenditures from the fund. The PERS Board has chosen to not deploy deposits to offset school district pool rates until the balance reaches a threshold of one percent of the school district's payroll multiplied by an amortization factor of approximately 5.16%. For the 2025-27 biennium, the threshold would be $514.5 million, based on the school district's payroll valuation ($10 billion or $91 million) multiplied by the 5.16% amortization factor. PERS reports that the balance of the SDULF is $166.5 million after recently receiving a $77.2 million unclaimed property transfer. The balance remains below the threshold distribution amount determined by PERS. At present, no further deposits into the SDULF are forecasted, other than interest earnings. The 2025 Legislature has under consideration SB 849 that amends current law to give the PERS Board broader authority to distribute the funds available in the SDULF.

Employer Incentive Fund: SB 1566 established an Employer Incentive Fund (EIF) to be used for a 25% match program for employer side accounts, which are for pre-paid employer contributions held in trust by PERS. In contrast to the SDULF, the EIF has expended funds from the account. PERS reports that the EIF has matched $96.4 million in employer contributions for 110 participating employers. The current revenue sources of the EIF include Lottery Funds from sports betting and one-time General Fund. The current revenue sources of the EIF include Lottery Funds from sports betting and one-time General Fund. EIF has a reported balance of $27.9 million, which is forecasted to increase to $87.8 million for the 2025-27 biennium. The DAS-OEA sports betting revenue forecast for the EIF (December 2024) is $28.2 million for the 2023-25 biennium, $46.8 million for the 2025-27 biennium, $48.8 million for the 2027-29 biennium, $51.5 million for the 2029-31 biennium, and $53.7 million for the 2031-33 biennium.

PERS had previously reported during the 2024 legislative session on the agency's plan to opening a new round of EIF applications during the 2023-25 biennium once the EIF had reached a balance of $25 million with that application period commencing by the end of calendar year 2024. This application round was not open, as scheduled, and has been delayed a year until April of 2025. Any employer contributions and matching funds will be reflected in 2027-29 biennium and be used on an amortized basis to reduce employer contribution rates going forward until the side account balances have been exhausted.

CURRENT SERVICE LEVEL

The 2025-27 current service level budget totals $15.4 billion Other Funds, $28.5 million Lottery Funds and includes 391 positions (391.00 FTE). The budget is $1.7 billion, or 12.3%, higher than the 2023-25 legislatively approved budget of $13.7 billion. Of the CSL budget, $15.2 billion Other Funds Nonlimited is for benefit payments to retirees/beneficiaries, $150.8 for agency operations, and $28.5 million Lottery Funds for employer incentive payments.

The CSL includes standard base and essential package budgetary adjustments. Limited duration positions associated with the implementations of SB 1049 (2019), HB 4045 (2024), and the modernization project, as well as qualifying/non-qualifying eligibility resources are phased out. The CSL included no above standard inflation adjustment or mandated caseload adjustment, but does include a technical adjustment to move existing services and supplies budget authority between line-items to better align budget with projected expenditures. CSL understates Lottery Funds, as the amount budgeted does not reflect actual available revenues.

PERS will be proposing four legislative concepts, including: clarifying the reporting of employer and member data; clarifying post-retirement death benefits; health insurance subsidies (discussed in below); and the SDULF. The latter two concepts will have a budgetary impact.

GOVERNOR'S BUDGET SUMMARY

The 2025-27 Governor's budget totals $15.4 billion Other Funds and $44.9 million Lottery Funds and includes 451 positions (447.40 FTE). The budget is $1.8 billion, or 12.8%, higher than the 2023-25 legislatively approved budget of $13.7 billion. The Governor's budget includes $15.2 billion Other Funds Nonlimited is for benefit payments to retirees/beneficiaries, $195.2 million Other Funds is for agency operations, and $44.9 million Lottery Funds for employer incentive payments. In addition to statewide adjustments for Attorney General rates and DAS service charges, the Governor's budget includes the following policy package investments:

- Pkg. 101 HB 4045 Implementation ($2.7 million Other Funds and three positions (3.00 FTE))
- Pkg. 102 Managed Services ($262,918 Other Funds and one position (0.88 FTE))
- Pkg. 103 SB 1049 Permanent Positions ($2 million Other Funds and nine positions (9.00 FTE))
- Pkg. 104 Modernization ($34 million Other Fund and 31 positions (29.20 FTE))
- Pkg. 105 Dues and Subscriptions ($2.4 million Other Funds)
- Pkg. 106 Operations CSL ($773,646 Other Funds and four positions (3.52 FTE))
- Pkg. 107 Human Resources ($252,760 Other Funds and one position (0.88 FTE))
- Pkg. 108 Risk Management ($1.4 million Other Funds and two positions (1.76 FTE))
- Pkg. 109 Procurement, Facilities, and Logistics ($193,741 Other Funds and one position (0.88 FTE))
- Pkg. 110 Policy Analysis and Compliance Section CSL ($1.1 million Other Funds and five positions (4.40 FTE))
- Pkg. 111 Communications ($500,519 Other Funds and two positions (2.00 FTE))
- Pkg. 112 IS Re-Classes ($60,536 Other Funds)
- Pkg. 113 Actuarial Staff ($188,672 Other Funds and one positions (0.88 FTE))

The Governor's budget also increases Lottery Funds expenditure limitation by $16.4 million in package 090 to a total of $44.9 million. The CSL Lottery Funds budget of $28.5 million is understated due to the following factors: (a) the carryforward balance of $16.8 million is understated by $24.2 million; (b) the December 2024 DAS OEA revenue forecast estimates revenue of $46.8 million. When combined, PERS will have an estimated $87.8 million of Lottery Funds revenue with projected expenditures of $44.9 million. This will leave a $42.9 million ending Lottery Fund balance for the 2025-27 biennium. Net sports betting revenues decreased slightly in the December 2024 forecast and will continue to change with remaining quarterly forecasts that occur before the start of the next biennium.

OTHER SIGNIFICANT ISSUES

Statutory Reporting: The 2025 Legislature is expecting to receive the following reports: (a) ORS 238.670(5) requires the PERS Board to submit a report to the Legislature on the Board's preliminary plan to credit calendar year earnings of the Oregon Public Employees Retirement Fund (OPERF) to member and employer accounts and other reserves. Under the statute, the Board must provide the report at least 30 days before the Board makes its final earnings crediting decision; and (b) SB 1566 (2018) required PERS to report during each regular session to the Joint Committee on Ways and Means on the status of the School Districts Unfunded Liability Fund, Employer Incentive Fund, and the Unfunded Actuarial Liability Resolution Program that were established by SB 1566 (2018).

Retirement Health Insurance Programs: PERS was directed by budget note to review the healthcare insurance marketplace and report back on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups in acquiring healthcare coverage under the Oregon Health Insurance Market Place plans and whether the Affordable Care Act or Oregon Health Insurance Market Place could provide coverage for the Medicare Plan policy holders under the PERS Health Insurance Program. The PERS' report offered a thorough analysis of the agency's current health insurance program and environment and examines a number of viable alternative options for pre-Medicare health insurance coverage for eligible PERS retirees and beneficiaries. The report led PERS to develop a legislative concept that (now SB 847): (a) proposes to increase the Retirement Health Insurance Account premium subsidy (RHIA) from $60 to an amount equal to 100% of the five-year average of the monthly cost of coverage among all carriers contracted through PHIP. This subsidy could potentially encourage enrollment in PHIP among both pre-Medicare and Medicare eligible retirees; and (b) under current law, the PHIP subsidy is only available to Tier One and Tier Two PERS members but is expanded under SB 847 to include OPSRP retirees.

KEY PERFORMANCE MEASURES

A copy of the PERS Annual Performance Progress Report can be found on the LFO website: [https://www.oregonlegislature.gov/lfo/APPR/APPR_PERS_2024-09-27.pdf].

Contact Information
John Borden, Principal Legislative Analyst

Legislative Fiscal Office
900 Court Street NE, Room H-178, Salem, Oregon 97301
Oregon State Capitol | (503) 986-1828 | www.oregonlegislature.gov/lfo