2007 Regular Legislative Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 2285 **STATUS:** B-Engrossed
SUBJECT: Public Employees Retirement System calculation of retirement credit; repeal of break in service provisions
GOVERNMENT UNIT AFFECTED: Public Employees Retirement System, participating public employers
PREPARED BY: Adrienne Sexton
REVIEWED BY: Dallas Weyand
DATE: June 14, 2007

		2007-2009		2009-2011
EXPENDITURES – PERS Other Funds:				
Personal Services	$	339,284	$	0
Services and Supplies	$	89,818	$	0
Total Other Funds	$	429,102	$	0
POSITIONS / FTE:				
See Comments.		9 / 4.25		0 / 0.0
EXPENDITURES – State and local governmental units and school districts All Funds				
Employer Contributions to PERS	$	0	$	6,300,000

EFFECTIVE DATE: January 1, 2008

GOVERNOR'S BUDGET: This bill is not anticipated by the Governor's recommended budget.

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

COMMENTS: This bill now contains legislation originally included in HB 2623 and HB 3451, each of which had been referred to Ways and Means. Sections 1-7 are from HB 2623 and Sections 8-11 are from HB 3451.

Sections 1-7 repeal the break-in-service provisions of the 2003 Public Employees Retirement System (PERS) reform legislation. With certain statutory exceptions, Tier 1 and Tier 2 members who had or have a break-in-service of more than six months on or after August 29, 2003, and return to a public employer that provides PERS retirement benefits, is eligible for membership only in the new Oregon Public Service Retirement Plan (OPSRP) from the time of rehire. This break-in-service provision has added to the backlog of administrative work at the Public Employees Retirement System. Repeal of the break-in-service provision would have one-time costs of $276,000 to PERS in 2007-09 to make changes to its systems and return those break-in-service members now in OPSRP to Tier 1 or Tier 2 status.

The PERS actuary estimates that opening up Tiers 1 and 2 to members with breaks-in-service instead of placing them in the new OPSRP would increase employer contribution rates by .01 of one percent. Employer rates have been established for the 2007-09 biennium. A .01 of one percent increase in employer contribution rates in 2009-11 is expected to cost employers $600,000 per year or $1.2 million per biennium.

The actuary also notes that the current break-in-service provision allows certain employees to “game” the system to increase total retirement benefits. The “gaming” is achieved when employees (mainly Tier 1 members) who, due to the reform legislation, will not accrue additional retirement income by working any more years, incur a break-in-service and, after six months, return to employment and begin accruing benefits under OPSRP. It should be noted that the “gaming” only works when employees are reasonably certain of gaining employment (or reemployment) after a six-month break-in-service. The actuary notes that, to the extent members “game” the system, employer contribution rates could increase by more than the .01 of one percent associated with eliminating the break-in-service provision. The actuary did not have sufficient data to estimate the number of employees that would, in fact, “game” the system to gain the increased benefits.

Sections 8-11 changes the manner in which retirement credit is accrued under OPSRP to closely mirror how retirement credit is accrued under Tiers 1 and 2. PERS estimates additional administrative cost of $153,000 to implement the changes. The PERS actuary estimates this change could increase employer contribution rates by .34 of one percent on OPSRP payroll in 2009-11. Calendar 2005 OPSRP payroll amounted to $681 million. Assuming an OPSRP payroll of $750 million would indicate an annual cost to employers of $2,550,000, or $5.1 million per biennium.