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

MEASURE NUMBER: HB 2623 **STATUS:** Original
SUBJECT: Eliminates break-in-service provision of the Public Employees Retirement System.
GOVERNMENT UNIT AFFECTED: Public Employees Retirement System, state government, local governmental units and school districts
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REVIEWED BY: Adrienne Sexton
DATE: March 8, 2007

		2007-2009		2009-2011
EXPENDITURES – PERS Other Funds:				
Personal Services	$	235,115	$	(209,231)
Services and Supplies	$	24,849	$	(5,000)
Capital Outlay	$	0	$	0
Total – General Fund	$	260,564	$	(214,231)
POSITIONS / FTE:				
Retirement Consultants (limited duration)		7 / 2.75		
Retirement Consultants (permanent)				(2/2.0)
Operations and Policy Analyst (limited duration)		1 / .50		0
Total Positions / FTE		8/ 3.25		(2 /2.0)
EXPENDITURES – State and local governmental units and school districts All Funds				
Employer Contributions to PERS	$	0	$	1,200,000

EFFECTIVE DATE: Repeals break-in-service provisions that were in effect on and after August 29, 2003.

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: The measure repeals 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 to PERS in 2007-09 to make changes to its systems and return those break-in-service members now in OPSRP to Tier 1 and Tier 2 status. However, elimination of break-in-service would result in administrative costs savings in following biennia.

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.