FISCAL IMPACT OF PROPOSED LEGISLATION

Measure: SB 857 - 13

Seventy-Seventh Oregon Legislative Assembly – 2013 Regular Session
Legislative Fiscal Office

Versions are Considered Official

Prepared by: John Borden
Reviewed by: Daron Hill, Matt Stayner
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Measure Description:
Modified PERS pension benefits.

Government Unit(s) Affected:
Public Employees Retirement System (PERS)

Summary of Expenditure Impact:
See Analysis

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.

Analysis: The measure modifies cost-of-living adjustment under Public Employees Retirement System (PERS), requires a PERS report on purchasing power of pensions, modifies the actuarial equivalency factor tables for certain PERS members, and directs the PERS Board to recalculate employer contribution rates for the 2013-15 biennium. The measure states that the changes do not constitute a statutory contractual promise. The measure provides for an expedited judicial review. The measure has an emergency clause and is effective on passage.

The measure impacts PERS three primary benefit programs, which include Tier 1, Tier 2, and Oregon Public Service Retirement Plan. The Individual Account Program is not impacted by the measure. The measure reduces benefit payments for current and future retirees.

This fiscal impact statement is in addition to the non-administratively directed savings in SB 882 (2013) that was signed into law on May 6th, 2013.

The measure modifies the cost-of-living adjustment (COLA) under PERS beginning on or after July 1, 2014. The COLA rate will be based on a graduated (decreasing) COLA based on the level of a retiree's benefit plus a fixed payment based on a $60,000 threshold, as summarized in the following table:

Annual Benefit Amount	Cost-of-Living Adjustment (beginning July 1, 2014)
First $60,000	1.25%
More than $60,000	0.15%

For the COLA provision, PERS estimates that system wide accrued liabilities will be reduced by $1.9 billion resulting in a reduction to 2013-15 employer contribution rates by 1.9%. PERS estimates that the measure will generate system wide savings of $355 million for the 2013-15 biennium, which is 1.9% of the estimated $18.4 billion in system wide payroll costs for the biennium. A similar percentage of payroll is expected to be saved in future biennia.

The COLA provision of the measure would negate, either in part or in total, the impact of the administrative action set forth in the SB 822 budget report that directs the PERS Board to reduce employer rates by up to 1.9% using a rate deferral method commonly referred to as "rate collaring."

Only those PERS entities with 2013-15 employer rates that exceed their 2011-13 employer rates after the impact of this measure was accounted for could receive a further rate deferral of up to 1.9%.

PERS is to base its assumed earnings rate for calculation of money match benefits on rates published by the federal Pension Benefit Guaranty Corporation for certain classes of members meeting the criteria of the measure. The applies to PERS members whose date of retirement is after September 1, 2013. The fiscal impact is of this change is indeterminate due to the fact that the annuity rate(s) are variable and subject to change.

PERS already conducts annual actuarial studies of pension purchasing power therefore this provision has no fiscal impact.

PERS would need to request additional Other Funds Expenditure limitation and position authority to implement the measure.

The Oregon Judicial Department may have costs beyond what is currently budgeted for the appointment of a Special Master, if an expedited judicial review is sought. The Department of Revenue is expected to have a minimal fiscal impact. There is no fiscal impact to the Department of Justice.