FISCAL IMPACT OF PROPOSED LEGISLATION **Measure: SB 822**

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

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:
Modifies cost-of-living adjustment and supplementary tax remedy payments for non-Oregon residents under Public Employees Retirement System (PERS) and directs the PERS Board to recalculate employer contribution rates for the 2013-15 biennium.

Government Unit(s) Affected:
State Agencies; Local Government; Oregon University System; Public Employees Retirement System; Department of Revenue; Judicial Department; and Department of Justice.

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:
This fiscal impact statement is for the purpose of transmitting the measure from the Senate Committee on Rules to the Joint Committee on Ways and Means. A more complete fiscal analysis on the bill will be prepared as the measure is considered in the Joint Committee on Ways and Means.

The measure has an emergency clause and is effective on passage.

The measure contains three primary provisions. Preliminary fiscal impact information is provided for each and will be updated once an actuarial analysis of the measure has been completed.

1. Modifies the cost-of-living adjustment (COLA) under the Public Employees Retirement System. In the first year of the 2013-15 biennium, the COLA rate limitation will drop from 2% to 1.5% for all retirement incomes. Thereafter, the COLA rate will be based on a graduated (decreasing) COLA based on the level of a retiree's benefit plus a fixed payment at various benefit levels above $20,000.

   Fiscal Impact: PERS estimates that this change will produce system wide savings from reduced employer contributions of $400 million for the 2013-15 biennium. This will reduce employer contribution rates by approximately 2.17%.

2. Eliminates the increased retirement benefits resulting from state income taxation of payments if the person receiving payments does not pay Oregon income tax on those benefits and is not an Oregon resident. This section of the measure is effective on passage; however, this fiscal impact assumes an implementation date of July 1, 2013. PERS assumes full implementation after January 1, 2014.

   Fiscal Impact: PERS estimates that this change will produce system wide savings from reduced employer contributions of $55 million for the 2013-15 biennium. This will reduce employer contribution rates by approximately 0.30%.

3. Directs PERS Board to recalculate all employer contribution rates, which is assumed to include 2013-15 rates effective for July 1, 2013.

   Fiscal Impact: This fiscal impact assumes that the PERS Board will take additional administrative action to recalculate 2013-15 employer contribution rates.

The 2013-15 Governor's budget assumes approximately $865 million of PERS savings from a modification of the COLA and the elimination of the Oregon tax benefit for out-of-state retirees. The Joint Committee on Ways and Means Co-Chairs' budget assumes $805 million of PERS saving, which includes savings from this measure as well as an assumed PERS Board administrative action that would reduce employer rates an additional 1.9%, or $350 million in one-time savings, for the 2013-15 biennium.

Composite employer contribution rates for *state agencies* are slated to increase from 15.57% for the current biennium to 19.84% for the 2013-15 biennium. This measure, coupled with the action of the PERS Board, would reduce the composite rate to 15.47%, or by 4.37%. Local government, the Oregon University System, and other PERS entities should see similar reductions in employer contribution rates.

PERS estimates its administrative costs to implement the measure at $1.01 million Other Funds (2 positions/1.50 FTE). Expenditure limitation for other potential agency expenses would need to be requested from either the Emergency Board or the Legislature, if needed.

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.

Further Analysis Required