PRELIMINARY ANALYSIS
PUBLIC EMPLOYEES RETIREMENT SYSTEM PROPOSAL
79th Oregon Legislative Assembly – 2017 Regular Session

This form provides an outline for the preliminary analysis of proposals submitted to the Senate Committee on Workforce to address the rising costs and long-term sustainability of the Public Employees Retirement System (PERS). A technical team, including but not limited to individuals from Legislative Counsel, Legislative Fiscal, and PERS, will analyze each proposal under the following criteria for the Committee's consideration.

- Constitutionality
- Order of Magnitude in Savings
- Actuarial Soundness
- Impact on Employer Contribution Rates
- Impact on State and Local Budgets
- Impact on Public Employee Benefits
- Impact on public Employee Workforce
- Equitability of Costs & Benefits to Public Employees
- Administrative Feasibility

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Date: March 2017

Measure Numbers/LC (if any): Senate Bill 560 -4 amendment

Summary of Proposal: The proposed amendment excludes lump sum unused vacation and other unused paid leave accrued after January 1, 2018 from the definition of salary for Tier One and Tier Two benefit calculations. Accumulated unused sick leave accrued on or after January 1, 2018 may not be used in the calculation of Final Average Salary. Excludes accumulated unused vacation, accrued on or after January 1, 2018 from the Final Average Salary calculation for legislative employees.

Summary of Current Law: Tier One members may receive a lump sum payment for unused vacation leave that is included in their final average salary at retirement. Tier One and Tier Two members may include the value of half of their unused sick leave hours in the calculation of their Final Average Salary.

Has a detailed actuarial analysis been completed for this proposal? Yes, attached. Milliman letter dated October 28, 2016, based on December 31, 2015 valuation results. The Milliman analysis was not specifically based on SB 560 -4, but rather the concept of limiting the sick and vacation leave to one half, or all, depending on how the amendment might affect member leave usage and accrual.

Please note that if multiple concepts are implemented together, the resulting effect would not be the cumulative amount of the separate concepts illustrated below. Instead, the interactions between the various benefit modifications would produce a reduction in liability and uncollared contribution rate of smaller magnitude than the sum of the reductions shown below. If more than one concept will be incorporated into a legislative proposal, an additional analysis should be conducted to study the combined effects.

LFO – In the absence of an actuarial analysis on SB 560 -4, LFO is relying upon the October 28, 2016 actuarial analysis.

ANALYSIS

The analysis should address each of the following criteria to the extent that information is available.

1. **Constitutionality**
   Legislative Counsel – Elimination of sick leave and vacation accrued after January 1, 2018, from the calculation of final average salary appears to meet the Moro standard for protection of accrued benefits. Note that determining what portions of sick and vacation leave were accrued and used before and after the effective date of the change could be complicated and would likely require public employers to keep track of separate banks of leave accrued and used before and after the change.

2. **Order of Magnitude in Savings (for next three biennia, if possible)**
   PERS – See page 7 of the Milliman letter for reductions in liability that would result from this concept. Please note that 2017-19 employer contribution rates have already been adopted, and those rate increases were limited by the PERS Board's rate collar policy. Cost reductions from this concept would be carried over to future biennia when the collar is fully implemented absent specific direction from the legislature to apply those savings in the next cycle. Doing so would postpone the full implementation of non-collared rates.

   LFO – The measure, if it were to become law, would generate system-wide employer rate savings beginning in the 2017-19 biennium. A preliminary estimate of these savings for the 2017-19 biennium is $92 million total funds; however, savings may be reduced or eliminated if the measure is successfully challenged in court, modified through collective bargaining or grievance arbitration, or subsumed by the PERS Board rate collar policy.

3. **Actuarial Soundness**
   PERS – Within the context of whether this concept would, over the time period considered, allow projected employer contributions and investment income to

fully fund the system, this concept would reduce that period (or lower costs during that period) if it reduces the benefits to be paid.

4. **Impact on Employer Contribution Rates (for next three biennia, if possible, including normal costs, unfunded actuarial liability (UAL), Individual Account Program/employee contributions, state agencies, school districts, and other PERS employers)**
PERS – See the comment about the current employer rate setting cycle and implementation of the PERS Board's rate collar. Also note that the Milliman analysis assesses what the impact would be if the current usage of sick and vacation leave were halved, or eliminated entirely. As the actual impact of this concept depends on member behavior (will leave patterns change and, if so, how much?), we cannot reliably predict whether this concept would have any effect on employer contribution rates. Rather, we would wait until actual experience over several years can be observed before we can adopt an assumption on the effect of this concept and revise employer contribution rates accordingly.

   LFO – According to the Milliman actuarial analysis of this concept, the normal cost rate for employers statewide would be reduced by 0.15% and the Unfunded Accrued Liability rate by 0.45% for a total **uncollared** rate reduction of 0.60%. The average system-wide employer rate would decline from 29.08% to approximately 28.48%.

5. **Impact on State and Local Budgets (cost savings and cost shifts, impact on General/Lottery Fund, and potential financial impact on collective bargaining)**
PERS – See the comment about the current employer rate setting cycle and implementation of the PERS Board's rate collar.

   LFO – A preliminary estimate of the ***gross*** General/Lottery Fund savings for the 2017-19 biennium for state government is approximately $35 million; however, savings may be reduced or eliminated if the measure is successfully challenged in court, modified through collective bargaining or grievance arbitration, or subsumed by the PERS Board rate collar policy.

6. **Impact on Public Employee Benefits (Tier 1, Tier 2, Oregon Public Service Retirement Plan (OPSRP))**
PERS – To the extent that this concept has any impact, it would only be to Tier One and Tier Two members. As we cannot predict how members would modify their use, or lack of use, of any unused leave that may be subject to provisions of the measure, we cannot assess any projected benefit impact. The actuarial analysis is predicated on the assumption that the impact that these leaves

currently have on benefits is reduced by half, or all, but there is no basis to assume that the concept would have that or any other effect.

7. **Impact on Public Employee Workforce (rate of retirements, employers' ability to recruit and retain employees)**
   PERS – While no one can reliably predict this impact, we would note that, as of December 31, 2016, over 32% of non-retired members across all Tiers and employer groups (70,335 of 219,220) were eligible to retire based on age or years of service. As this concept may affect individual member assumptions about whether their leave balances would have some effect on their retirements, this concept may prompt those members to retire while their balances are at their highest.

8. **Equitability of Costs and Benefits to Public Employees (costs/benefits)**
   LFO – The measure may have a disproportionate impact on Tier 1 and Tier 2 member's FAS calculation.

9. **Administrative Feasibility**
   PERS – There will be a fiscal impact to the agency to reprogram benefit calculation software to accommodate the new calculation. Additionally, the agency will revise member education material in all formats to reflect the new calculation.

   LFO – LFO does not have sufficient information at this time to respond to this question; however, the measure is assumed to have a fiscal impact on the operational budget of PERS for costs associated with implementing the measure (e.g., information technology), as well as possible legal costs.

Technical Issues of Note:
Legislative Fiscal – The measure may require clarification to ensure that budgetary savings begin with the 2017-19 biennium and reduce the recalculated 2017-19 employer contribution rates adopted by the PERS Board. Also, a more complete fiscal analysis will be prepared as the measure advances through the legislative process.