**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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**Measure Numbers/LC (if any):** Senate Bill 560 -2 amendment

**Summary of Proposal:** The proposed amendment reduces statutory factors used in benefit calculations to 1% for General Service and 1.2% for Police & Fire for Tier One, Tier Two, and OPSRP members.

**Summary of Current Law:** Statutory factors for Tier One and Tier Two members are 1.67% for General Service and 2.0% for Police & Fire. Statutory factors for OPSRP members are 1.5% for General Service and 1.8% for Police & Fire.

**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 -2, but rather the concept of changing the factors used in benefit calculations.

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 -2, 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 –** Application of lowered factor to service performed after January 1, 2018, appears to meet the Moro standard for protection of accrued benefits.

2. **Order of Magnitude in Savings (for next three biennia, if possible)**
   **PERS –** See page 3 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 $391.1 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) as 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.

   **LFO –** According to the Milliman actuarial analysis of this concept, the normal cost rate for employers statewide would be reduced by 1.20% and the Unfunded

Accrued Liability rate by 1.35% for a total **uncollared** rate reduction of 2.55%. The average system-wide employer rate would decline from 29.08% to approximately 26.53%.

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 $148.8 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 –** Benefits would be reduced for all members prospectively as the statutory multiplier for all programs would be reduced.

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. Whether this reduction in the amount of benefits accrued by additional service would materially affect an individual's decision to retire cannot be reliably predicted.

8. **Equitability of Costs and Benefits to Public Employees (costs/benefits)**
   **PERS –** While benefits would be reduced for all members prospectively as the statutory multiplier for all programs would be reduced, the reduction is larger for Tier One and Tier Two members than for OPSRP.

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.