SB 559 -1 STAFF MEASURE SUMMARY

Senate Committee On Workforce

Prepared By: Debra Maryanov, LPRO Analyst
Meeting Dates: 2/13, 4/17

WHAT THE MEASURE DOES:

Changes calculation of final average salary under the Public Employees Retirement System (PERS) for for purposes of determining member's full formula benefit. For salary paid on and after January 1, 2018, calculates greater of member's average annual salary in five calendar years of member's highest annual salary before member's retirement, or one-fifth of total salary in last 60 months of active membership. Requires recalculation of employer contribution rates to reflect savings attributable to Act and makes corrected rates effective July 1, 2017. Provides for expedited Supreme Court review of petitions by adversely affected persons. Declares emergency, effective on passage.

ISSUES DISCUSSED:

- Concerns about unfunded liability of Public Employees Retirement System
- Concerns about rising employer rates
- Impact of measure on school districts, cities, and public employees

EFFECT OF AMENDMENT:

-1 Removes emergency clause.

BACKGROUND:

PERS enables public employers to provide their employees with retirement benefits. State government, public schools, community colleges, and many local governments participate in PERS, including approximately 925 employers and covering about 95 percent of all public employees in Oregon. PERS contains approximately 347,000 members, including 168,000 active, 43,000 inactive, and 136,000 retired. Approximately 32 percent of members are currently eligible to retire by age or service.

PERS is a hybrid pension plan that includes a defined benefit plan and a defined contribution plan. Upon retirement, all PERS members receive both a life pension (defined benefit) and the balance of the member's individual account (defined contribution). SB 559 impacts only the pension benefit.

The calculation of a member's pension benefit varies by type of membership plan. For Tier One and Tier Two members, the amount of pension benefits is the higher total amount calculated between the "money match" and the "full formula" methods. For OPSRP members, the amount of benefits is determined by the full formula method. The basic calculation under the full formula method is: (Years of Service) x (Final Average Salary) x (the Factor). The factor varies by membership type.

Under current law, final average salary is calculated as the greater of the following: a member's average annual salary paid by participating public employers in the three calendar years of membership that produce the highest average salary, or one-third of the total salary paid to the member by participating employers in the last 36 months of active membership. Under SB 559, the calculation for final average salary is a member's average annual salary in the five calendar years of membership that produce the highest average salary, or one-fifth of total salary in the last 60 months of active membership, whichever is greater. For Tier One and Tier Two members, any lump sum from payment for vacation pay accrued after the effective date of the change would be excluded from that calculation. SB

559 may reduce employer contribution rates by decreasing the amounts calculated for some members' final average salary and, consequently, the amount of their pension benefits. The new calculation method under SB 559 is for salaries paid after January 1, 2018.

The concept of changing the calculation for a member's final average salary emerged from a workgroup formed by Senator Tim Knopp and Senator Betsy Johnson during the 2015-16 Interim Session to craft a comprehensive PERS solutions package.