FISCAL IMPACT OF PROPOSED LEGISLATION — Measure: SB 559

79th Oregon Legislative Assembly – 2017 Regular Session
Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:
Changes calculation of final average salary for purposes of Public Employees Retirement System to use five years of salary instead of three years, for salary paid on and after January 1, 2018.

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

Summary of Expenditure Impact:
PERS anticipates agency costs of $1.1 to $1.3 million in 2017-19. System-wide savings are estimated at $99.7 to $133 million.

Analysis:
SB 559 changes the calculation of final average salary (FAS) from the highest three years to the highest five years of salary or one-fifth of the total salary in the last 60 months of active membership for purposes of determining PERS benefits, beginning with salaries paid on and after January 1, 2018. The impact would primarily fall to Oregon Public Service Retirement Plan members, then Tier Two members, and to a lesser extent Tier 1 members.

In addition, the measure directs the Public Employees Retirement Board to recalculate employer contribution rates as soon as practicable to reflect the savings attributable to the proposed measure. The corrected employer rates are to be effective July 1, 2017, which precedes benefit changes by six months. The measure's emergency clause allows the PERS Board to begin administrative preparations to implement benefit and employer rate changes prior to the January 1, 2018 operative date and allows for expedited judicial review.

The measure may reduce employer contribution rates by decreasing the amounts calculated for some members' final average salaries and, consequently, the amount of their pension benefits. According to the Milliman actuarial analysis of this ***concept***, the normal cost rate for employers statewide would be reduced by 0.25% and the Unfunded Accrued Liability rate by 0.40% for a total uncollared rate reduction of 0.65%. The average system-wide employer rate could decline from 29.08% to approximately 28.43%.

The PERS Board adopted 2017-19 employer contribution rates are under an administrative collar (cap) that limits the biennium to biennium increases. Unless otherwise directed by statute, the current rate collar policy of the PERS Board could delay employer contribution savings until the 2021-23 biennium. In other words, as currently written, the language in this measure directing the PERS Board to recalculate employer rates for the 2017-19 biennium is insufficient to ensure the measure's savings are captured in the 2017-19 biennium.

A preliminary estimate of system wide savings for the 2017-19 biennium is $99.7 to $133 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. Potential savings could also be impacted by the passage of other PERS reform measures.

PERS administrative costs, funded from transfers from earnings on the invested funds, are estimated at $1.1 million for information technology system changes and $190,000 in potential litigation costs. The Oregon Judicial Department could have costs beyond what is currently budgeted for the appointment of a Special Master, if an expedited judicial review is sought.

Given the budgetary issues associated with the measure, it is recommended that it be referred to the Joint Committee on Ways and Means for further consideration.