LOCAL 503
SEIU
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Chair Holvey, members of the committee:

My name is Steve Demarest. I am the President of SEIU Local 503. SEIU Local 503 is the union of nearly 65,000 Oregonians doing more than 500 different jobs in 85 state, local government and non-profit agencies, and in homes and care facilities. I also serve as a member of the Oregon Public Employees Retirement Board. I am here today to testify as President of SEIU 503 in support of HB 4159 and the proposed amendment.

A little background on why this bill is needed. In September 2017, the Oregon Investment Council adopted a new investment policy, effective January 1, 2018, to shift IAP member account investments to a custom Target-Date Fund (TDF) model, where the account's investment allocation is based on the member's age and anticipated retirement date. Segregating IAP funds addresses an issue of liquidity for the Oregon Public Employee Retirement Fund and the Oregon Investment Council, because IAP funds are usually cashed out.

The shift to a TDF model in particular is also intended to reduce investment risk and volatility as members move towards presumed retirement age. The strategy is to maximize the potential for account growth in a member's younger years, when the member presumably has time to recover from occasional downturns in the market. As members move toward their presumed retirement age, the investment strategy gradually evolves to a more conservative allocation that will reduce the probability of large losses (or large gains) from market fluctuations.

We agree that this is good, sound fiscal policy, in general. However, it is important to recognize that many members do not fit the assumed trajectory of retirement. There are a variety of reasons for this, including coming to the state workforce later in their career or simply choosing to retire beyond 60 years of age. A worker may not want to reduce their investment risk as they near the age of 60.

Additionally, PERS OPSRP, the so-called Tier 3, is not, in most cases, adequate to support retirement on its own, so many OPSRP and other PERS members make their own private investments to plan for retirement in addition to PERS. Don't forget that the current workforce is made up of majority OPSRP members. Many of those members and other PERS members have made private investment decisions based on the 15 year history of IAP assets being invested very aggressively. This change is disruptive to the long term retirement planning of those members.

The current TDF model also treats each PERS member as an economic unit when, in fact, many PERS members, along with spouses and domestic partners, are part of an economic unit that may have a different totality of circumstances than what is assumed for individual members.

Finally, I note that the current TDF model does not entirely escape the risk of volatility. A significant loss in a TDF may occur just before a member graduates to a more conservative fund, locking in the loss. The member may wish to pursue another investment strategy to meet a goal of retirement date and income.

HB 4159 simply allows members to exercise some discretion over their IAP account, allowing them to direct that their account be invested in a TDF other than the one assigned by birth year or even choose to opt-out of TDFs entirely and have their accounts ride OPERF returns. Those members choosing that last option will be a small fraction of the IAP accounts that caused a liquidity issue for OPERF. If a member does nothing, they will still be assigned a default TDF based on a target retirement age of 60.

HB 4159 will also allow PERS to move quickly to contract with a private vendor to manage the back end member account details. PERS needs some flexibility in order to meet the Jan. 1, 2019 timeline we are asking them to meet.

The Treasurer’s office has asked for some amendments to clarify a few points, and we are fine with those amendment represented in the -1.

Thank you for the opportunity to testify. I am happy to answer any questions.