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January 12, 2018

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Nancy Nathanson, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Oregon State Treasury (“Treasury”) respectfully requests a supplemental General Fund appropriation for the Oregon Retirement Savings Board (“ORSB” or “the board”) for the 2017-19 biennium totaling \$1,834,033. Treasury is returning to the legislature, as requested during the 2017 session, to request in the 2018 Session full funding necessary to implement the program. While these additional funds remain necessary for program implementation, Treasury has been able to identify savings and achieve efficiencies. These efforts are aimed toward improving program performance and accelerating the path toward self-funding.

Agency Action

Background

ORS 178.200 to 178.245 establishes the ORSB within Treasury and charges the board with establishment of a defined contribution retirement plan for Oregonians whose employers do not otherwise offer a qualified retirement plan under federal law.

The board established OregonSaves, which launched in July 2017. OregonSaves allows eligible Oregonians to save for retirement at work through payroll deductions. Employees are automatically enrolled—unless they opt out—and start with a five percent savings rate. Money contributed to OregonSaves is an asset of the employee and is not impacted by changes in employer. The program benefits employers as well because it allows them to compete in the labor market with businesses that offer employer-sponsored retirement benefits. OregonSaves is simple and straightforward to facilitate. Employers provide employee information to the OregonSaves administrator, distribute program information to employees, and facilitate payroll deductions for employees who participate. There are no employer fees and no employer matching. Every employer with employees in Oregon is required to either facilitate

OregonSaves or certify its exemption from the program if it already offers an employer-sponsored retirement plan.

After an initial pilot phase, OregonSaves began rolling out in waves, beginning in October 2017 with employers that have 100 or more employees. The program will roll out to smaller employers over the next few years. As of December 2017, 271 employers have registered to facilitate. Approximately 70 percent of employees have stayed in the program, totaling more than 1,590 employees with combined savings of \$376,080.

Funding Issues

While a small, asset-based fee will ultimately accrue to the board to fund ongoing operational activities, a General Fund appropriation is required to fund these expenses until sufficient fee revenue is available to support critical functions such as investment audits, legal expenses, outreach and education efforts, as well as personnel and implementation costs. In addition to staffing, primary costs during the 2015-17 biennium were for market analysis, plan design, legal expenses, and other initial program development costs. The General Fund loan for the 2015-17 biennium was \$1,021,497, with an additional appropriation of \$252,372 approved by the State Emergency Board in November 2017 to support legal costs associated with implementation activities, resulting in a total General Fund loan of \$1,273,869.

The 2017 legislature approved a \$2,187,774 General Fund loan in the 2017-19 Legislatively Adopted Budget, allowing OregonSaves to continue its implementation and program launch. However, the loan amount was \$1,929,304 less than was communicated to the legislature for continued program implementation throughout the entire 2017-19 biennium. In fact, there was an acknowledgement during Ways and Means hearings that the approved Services and Supplies funding amount would be insufficient to successfully launch and grow the program. Legislative leadership directed Treasury to return during the 2018 session with a request that would support continued program implementation during the 2017-19 biennium.

In addition to anticipated expenditures, OregonSaves is experiencing added pressures on its budget through a lawsuit filed by the ERISA Industry Committee (ERIC). Legal expenses associated with the state's response to the lawsuit are expected to be approximately \$100,000.

Despite these additional legal costs, Treasury's supplemental General Fund appropriation request of \$1,834,033 is less than the \$1,929,304 gap from what was communicated last session in part due to the efficiency strategies described in the next section.

Efficiency Strategies

In order to mitigate the increased budget pressures, drive efficiency, and squeeze as much as possible out of current resources, Treasury has instituted cost-saving measures:

- Consolidating all three savings programs (Oregon College Savings Plan, Oregon ABLE Savings Plan, and OregonSaves) into one cohesive Network. As one unit, the Network will immediately provide efficiencies and overall cost reductions that simply cannot be achieved if the plans remain in separate operational silos. These efficiencies and savings will be visible through cross functionality of staff (allowing for slower FTE growth over time), increased statewide outreach (leading to greater asset and account growth), decreased contract and vendor management (consolidating duplicative consulting services), among many others.
- Working to resolve the ERIC lawsuit as quickly as possible to save on legal expenses.

Building a Solid Foundation

The need for this additional funding is critical to the long-term success of OregonSaves. Treasury worked closely with the legislature 17 years ago to build a solid foundation for the Oregon College Savings Plan. The legislature provided General Fund loans and Treasury repaid them after the program was implemented. With a modest upfront investment, Treasury and the legislature have a similar opportunity to build a solid foundation for ORSB. That investment, however, will pay great dividends in the future by increasing participation, accelerating the program's self-sufficiency—and repayment of the General Fund loan—and providing financial security to more Oregonians. This investment is also likely to reduce long-term demand for state-funded social safety net programs, resulting in General Fund budget savings.

Additional General Fund Request Summary

Assumptions regarding the financial needs of OregonSaves for rollout and operations in the 2017-19 biennium have fluctuated slightly since development of the 2017-19 Governor's Budget (and incorporating the \$637,220 in post-GB adjustments discussed below as 'Adjusted Governor's Budget'), but those fluctuations have been immaterial in the two months since the first (and smallest) rollout. Treasury suggests that the Adjusted Governor's Budget continues to reflect an appropriate baseline for the program's budget.

The savings achieved through ongoing reorganization efforts described in the Efficiency Strategies section, however, have eliminated the need to restore the Personal Services budget to the Governor's Budget level. In particular, a second Operations and Policy Analyst 3 position that was requested in the Governor's Budget—but not approved in the Legislatively Adopted budget—was expected to be incorporated in this request. The reorganization has demonstrated, however, that program rollout and ongoing operations can be accomplished without the position, resulting in an estimated savings of \$106,069 (from the originally expected request amount) for the 2017-19 biennium.

The reorganization and associated efficiencies remain in progress, and Treasury expects to report its progress at the hearing associated with this request. Treasury's testimony will include the discussion of potential temporary additional savings from LAB for 2017-19 and will

request long-term changes resulting from these efforts to the staffing complements for the three impacted programs (College Savings, ABLE, and OregonSaves) in the 2019-21 Governor’s Budget request.

This requested appropriation increase is limited to Services and Supplies¹ only, and reflects no material change from amounts and assumptions requested in the 2017-19 Adjusted Governor’s Budget, with one exception. The lawsuit described in the Funding Issues section is expected to cost approximately \$100,000. While the program is working to ensure those costs remain within that estimate, it was not contemplated in the Adjusted Governor’s Budget calculations and is accordingly incorporated here.

Note that the efforts described in the Efficiency Strategies section have generated concrete savings in staffing costs but are expected to primarily reduce the anticipated rate of growth in program Services and Supplies expenditures. As a result, the requested General Fund appropriation increase is unchanged from what was requested in the Adjusted Governor’s Budget (other than the litigation amount described above), but Treasury and the program will continue to refine estimates relating to these efficiency strategies to identify whether program costs can be reduced in the current biennium.

The following table reflects the requested increase in the General Fund allotment in context:

OregonSaves 2017-19 General Fund Budget

	Personal Services	Services & Supplies	Total
<i>Governor's Budget</i>	1,094,201	2,385,657	3,479,858
<i>Post-GB Adjustments</i>		637,220	637,220
Adjusted Governor's Budget	1,094,201	3,022,877	4,117,078
Legislatively Adopted Budget	898,930	1,288,844	2,187,774
Requested Appropriation Increase	-	1,834,033	1,834,033
Legislatively Approved Budget*	898,930	3,122,877	4,021,807

** if request is approved*

Status of Program Loan and Payback Period Assumptions

This request would increase the total amount of General Funds loaned to the program to date as follows:

¹ \$259,250 was inadvertently budgeted in Special Payments in the 2017-19 Governor’s Budget and Legislatively Adopted Budget; the requested action includes moving this amount to Services and Supplies, and tables have been adjusted to reflect the amount in Services and Supplies in the Governor’s Budget amounts, the LAB, and the request for ease of comparison.

	Total
2015-17 Legislatively Approved Budget	1,273,869
2017-19 Legislatively Adopted Budget	<u>2,187,774</u>
Total General Fund Loan to Date	<u>3,461,643</u>
2017-19 Requested Appropriation Increase	<u>1,834,033</u>
Total General Fund Loan if Request is Approved	<u>5,295,676</u>

The program recently received an updated forecast from Boston College regarding program growth in the forecasted accounts and assets under management (AUM). Treasury will report to the legislature at the hearing for this request on the resulting estimated payback period for the General Fund loan.

Action Requested

Treasury respectfully requests approval of a supplemental General Fund appropriation of \$1,834,033 for the Oregon Retirement Savings Board for the 2017-19 biennium.

Legislation Affected

Increase the General Fund appropriation established by section 1(2), chapter 605, Oregon Laws 2017 (enrolled Senate Bill 5541), and section 132, chapter 702, Oregon Laws 2017 (enrolled Senate Bill 5006), for the biennium beginning July 1, 2017.

Sincerely,



Darren Bond
Deputy State Treasurer