SB 1049 BUDGET REPORT and MEASURE SUMMARY

Joint Committee On Ways and Means

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Public Employees Retirement System
2019-21

Budget Summary*

	2017-19 Legislatively Approved Budget[(1)]	2019-21 Current Service Level	2019-21 Committee Recommendation	Committee Change from 2017-19 Leg. Approved	
				$ Change	% Change
General Fund	$ -	$ -	$ 100,000,000	$ 100,000,000	100.0%
Other Funds Limited	$ -	$ -	$ 100,000,000	$ 100,000,000	100.0%
Other Funds Nonlimited	$ -	$ -		$ -	0.0%
Total	$ -	$ -	$ 200,000,000	$ 200,000,000	100.0%

Position Summary

Authorized Positions	0	0	0	0
Full-time Equivalent (FTE) positions	0.00	0.00	0.00	0.00

(1) Includes adjustments through December 2018

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The Oregon State Lottery Commission collects revenues from lottery gaming and transfers net revenues, after payment of prizes and operating expenses, to the Administrative Services Economic Development Fund. The measure directs the Department of Administrative Services (DAS) to transfer the net proceeds of sports betting games to the Public Employees Retirement System's (PERS) Employer Incentive Fund established by section 1, chapter 105, Oregon Laws 2018 [SB 1566 (2018)]. Currently, DAS distributes funds from the Administrative Services Economic Development Fund in accordance with constitutional and statutory allocations on a quarterly basis. The revenue impact from this transfer is indeterminate at this time, as sports betting games have yet-to-be formally approved or implemented by the Lottery Commission (see Revenue Impact Statement). Once implemented, 100% of net sports betting proceeds, after winnings and administrative expenditures, will be transferred to the Administrative Services Economic Development Fund. The transfer of sports betting proceeds will sunset on December 31, 2041 due to the sunset of the Employer Incentive Fund on July 1, 2042, at which point any unexpended sports betting proceeds in the Employer Incentive Fund will be returned to the Administrative Services Economic Development Fund.

Sports betting revenue in the Employer Incentive Fund will be used to fund the state's 25% match to a participating employer contribution. Once matched, state funds would be transferred into a new or existing employer side account at which time the state would relinquish all financial interest in the match. All PERS entities, including school districts, community colleges, and public universities, are eligible to participate in the matching funds program; however, to become eligible for matching funds, an employer must have an approved Unfunded Actuarial Liability Resolution plan established under chapter 105, Oregon Laws 2018.

The measure also appropriates $100 million General Fund to the Employer Incentive Fund to also be used for state matching funds and may produce at least $400 million in matching employer funds. The General Fund will be expended as Other Funds.

PERS administrative costs are funded primarily by revenue transfers from the retirement programs.

Summary of Capital Construction Subcommittee Action

The measure contains provisions to address funding of the Public Employees Retirement System, among other changes. The measure has an emergency clause and is effective on passage; however, the measure contains various operative and repeal dates. The measure also makes technical changes to chapter 105, Oregon Laws 2018.

System Financing

The measure modifies PERS system financing by changing the amortization period and adding assets to the system. Assets that are added to PERS will be included in actuarial valuations.

Tier 1 and Tier 2 Unfunded Accrued Liabilities are re-amortized, on a one-time basis, from 20-years to 22-years after which point the amortization schedule for these two benefit plans revert to 20-years. The PERS Board sets the amortization period administratively as long as the amortization period is below the 40-year statutory maximum. The amortization period for the Oregon Public Service Retirement Plan remains unchanged at 16-years.

The measure adds assets to the system by dedicating all net lottery revenues from sports betting games revenue to the Employer Incentive Fund. The corresponding employer match is indeterminate at this time until the amount of sports betting games net lottery revenue deposited into the fund becomes known.

The measure appropriates $100 million of General Fund, on a time-time basis, for expenditure into the Employer Incentive Fund. The corresponding employer match up to 75% is assumed to be at least $400 million for a total increase in assets of $500 million. The measure provides for $100 million of Other Funds expenditure limitation for the Fund. PERS will need to request additional Other Funds or Lottery Funds expenditure limitation depending upon the availability of sports betting revenue as well as the timing of employer matching funds in order to expend funds out of the Employer Incentive Fund. Once matched, Employer Incentive Funds will be expended to fund lumpsum employer side accounts, which are separately budgeted as Nonlimited Other Funds expenditures. The Department of Administrative Services is requested to unschedule $75 million of the General Fund appropriation, which may be scheduled once employer matching funds become available and upon the approval of the Legislative Fiscal Office.

The measure directs the Public Employees Retirement Board to allow participating employers making certain lump sum payments to choose the starting date for the amortization period for use of a lump sum payment to offset contributions to the system. At least one large public entity anticipates making a $10 million side account contribution under this authority.

Benefit Modifications
The measure includes two provisions that impact employee retirement benefits: a re-direct of a portion of an employee's defined benefit contribution and a limitation on the Final Average Salary used to calculate the Full Formula Plus Annuity and Full Formula benefits.

The measure redirects a portion of employee contributions from an employee's defined contribution plan, the Individual Account Program, to partially fund an employee's defined benefit or pension plan ("*Employee Pension Stability Account*"), if the PERS funded status is less than 90% funded and if an employee's earnings is more than $2,500/month or approximately $30,000 per year. Moneys in an employee's Employee Pension Stability Account are ineligible for the Money Match benefit. Redirected funds reduce the defined contribution benefit of an employee but are then used to partially fund an employee's defined pension benefit. Redirected funds lower or offset the employer contribution. Employees have the option to voluntarily contribute into their IAP account the amount of redirected funds on an after-tax basis.

The redirect for each benefit plan, which begins on July 1, 2020, are as follows:
- Tier One: 2.5% of PERS-eligible salary and wages
- Tier Two: 2.5% of PERS-eligible salary and wages
- Oregon Public Service Retirement Plan: 0.75% of PERS-eligible salary and wages

The measure places a limit on the Final Average Salary of $195,000 for Tier 1, Tier 2, and OPSRP employees retiring under Formula Plus Annuity and Full Formula benefit plans. The $195,000 cap is indexed to inflation on an annual basis.

Retiree Work After Retirement
The measure eliminates both annual hours of employment for retired workers and the exemption on employers paying contributions on retired member payroll. Employer's must continue to make employer contributions with regard to a retired member, but the retiree will accrue no additional PERS retirement benefit and the employer contribution will be credited to an employer account as an additional payment above normal contributions. The return-to-work provisions are effective for only the calendar years 2020, 2021, 2022, 2023, and 2024 and sunset on January 2, 2025.

Employer Contribution Rate Savings
On a system wide basis, 2021-23 biennium employer net rates were scheduled to increase from 18.31% to 24.07%, or an increase of 5.76% of PERS-eligible payroll. The combined savings from this measure, summarized in the below table, reduce the system-wide increase by 5.43%. The associated system-wide employer contribution dollar savings is estimated to be between $1.2 to $1.8 billion a biennium beginning with the 2021-23 biennium through the 2033-35 biennium for state agencies, universities, judges, school districts, and participating cities, counties, and special districts. A similar percentage of payroll is expected to be saved in future biennia. This estimate, however, will vary substantially between employers based on individual employer actuarial calculated rates and due to variances between actuarial projections and actual experience.

System-wide Average Employer Contribution Rate	Operative Date	2021-23 Biennium*
Re-amortization Tier1/Tier 2 UAL (22-years)	2019 Actuarial Valuation [*repeals January 1, 2020*]	-3.90%
Re-directed employee contributions	July 1, 2020	-1.20%
Retiree Work After Retirement	January 1, 2020 [*repeals January 1, 2025*]	-0.80%
Final Average Salary $195,000 limitation	January 1, 2020	-0.03%
Rate collaring	2019 Actuarial Valuation	+0.50%
Total		-5.43%

*Milliman actuarial analysis dated May 9th, 2019.

The PERS Board previously adopted and published employer contribution rates for the 2019-21 biennium. This measure makes no changes to 2019-21 adopted employer contribution rates and the 2019-21 biennial budget assumes no budgetary savings from this measure. Savings generated during the 2019-21 biennium will be used to offset future employer contribution rates.

Change in Funded Status
For the most current actuarial valuation, PERS has assets of $67.3 billion (including employer side accounts) and liabilities of $84.1 billion for $16.7 billion in unfunded liabilities as of December 31, 2017. The funded status of the system is 80%. Employer contribution rates will be determined based on 2018 (+0.48%) and 2019 (to-be-determined) actual market rates of returns.

The re-amortization of the Tier 1/Tier 2 Unfunded Accrued Liability from 20-years to 22-years is expected, under current actuarial assumptions, to extend the retirement of the UAL by approximately six years from 2035 to 2041. Other system financing and benefit modifications are expected to have a minimal impact (i.e., reduction) to the UAL.

Pension Obligation Bonding
The measure requires a public body or intergovernmental entity, prior to issuing pension obligation bonds, to obtain a statistically based assessment from an independent economic or financial consulting firm. The assessment would need to determine the likelihood that investment returns on bond proceeds would exceed the interest cost of the bonds under various market conditions. Upon receipt of the assessment, the public body or intergovernmental entity would need to make the results available to the public and disclose whether it has retained the services of an independent SEC-registered advisor. The public body or intergovernmental agency would be required to submit the assessment to the State Treasurer at least 30 days before issuing the bonds. The State Treasurer would need to provide an annual report on local entities pension obligation bonds issued to the State Debt Policy Advisory Commission. The measure also limits diversion agreements to no more than 100% of an entity's State School Fund distribution.

Member Choice
The measure provides Individual Account Program members with a choice between various investment options. Currently, IAP members have no investment selection choice as their accounts are invested in age-based target-date funds.

Reporting
The measure requires the PERS Board to report to the Joint Committee on Ways and Means at least 30 days before the Board adopts changes to actuarial methods and assumptions.

Expedited Review
The measure provides for expedited legal review by the Oregon Supreme Court.

Administrative and Implementation Costs
The Public Employee Retirement System estimates the fiscal impact to implement the measure to be $31.4 million Other Funds, $2.5 million Other Funds Nonlimited and ten positions (9.50 FTE) for the 2019-21 biennium and $2.1 million Other Funds, $5.1 million Other Funds Nonlimited, and five positions (5.00 FTE) for the 2021-23 biennium. Revenue transfers from earnings on trust funds will cover PERS costs. PERS will incur approximately $25 million in one-time information technology costs plus additional costs for project management and independent third-party oversight. Other costs include accounting staff, policy staff, and retirement counselors; third party administrative fees for the Individual Account Program; mailing and postage; actuarial analyses; and miscellaneous other services and supplies. Additional legal costs may be incurred by the agency.

Department of Administrative Services, State Treasury (Debt Management Division), Judicial Department, Department of Justice, and the Oregon State Lottery are expected to have a minimal fiscal impact.

The measure would have an indeterminate fiscal impact on Special Districts, Counties, Cities, School Districts, Education Service Districts, Public Universities, Community Colleges, and Oregon Health and Science University depending upon whether these entities issue pension obligation bonds.

The budgetary impact, beyond what is included in the measure, may be accommodated in either an end-of-session omnibus budget measure, the Legislative in 2020, or by an Emergency Board action.