Oregon
Tina Kotek, Governor

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Good afternoon Chair Grayber, Vice-Chairs Lewis and Tran, members of the committee. For the record, Kevin Olineck, Director of PERS.

The agency takes no position on HB 2701. However, we wanted to provide the committee with some background and context regarding development of this bill.

As you heard connected with our testimony regarding HB 2054, there are risks to our federal governmental retirement plan tax qualification that come from expanding the definition of "police officer" in our statutes to PERS members who do not meet the federal definition of "public safety officer". However, as the committee and other outside stakeholders have acknowledged, there are public employees that are not "police officers" for PERS purposes that face real hazards and stress in their jobs. Those employees and their stakeholders have expressed that they would like their hardships at work acknowledged (and recruitment opportunities improved) with increased retirement benefits.

Stakeholders from SEIU, AFSCME, and the Oregon Education Association approached the agency about creating a new member classification that could give these members increased benefits, while avoiding the negative federal tax consequences. The agency has worked with these stakeholders throughout the interim on language for HB 2701. As amended, HB 2701 would create a "hazardous position" member classification. This new membership classification would provide members whose jobs fit under the definition of "hazardous position" with two significant enhanced benefits in comparison to general service members: 1. The same multiplier for final average salary calculations as police and fire members (1.8%), and 2. A normal retirement age that is the earlier of age 60 or age 58 with 25 years of service, with the last qualifying position for retirement being a hazardous position for at least 5 continuous years. While the benefit would only apply to prospective service, members could use their previous work in the same position to qualify for the earlier retirement age upon the effective date of the bill, provided they had five continuous years in the relevant position.

Lastly, for the purposes of actuarial determination on employer pension contributions and disability benefit funding, the employers and the PERS board are required to treat this population of members separately. Right now, the bill includes 911 telecommunicators and employees of Oregon State Hospital that have direct contact with patients within the definition of hazardous position. Moving forward, other groups could be legislatively added, provided they meet the definition of hazardous position in the bill.

This is an all new concept, and as such, we are still exploring the effects of this bill on the PERS plan, and the agency itself. The administrative undertaking to implement this bill would be significant. Right now, we anticipate it would be on a similar level administratively as the SB 1049 implementation, which is currently a 6 year, $75 million project. We would have to not only reprogram every aspect of our technologies to accommodate this new member classification, but also undertake a systematic communication and training campaign both internally for all staff, and externally to employer and member stakeholders.

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There is an urgency for the agency to begin modernization efforts. Our modernization efforts, particularly around reconfiguring our system using service oriented or component based architecture, would make legislative implementation easier and more cost-effective, particularly if applied to large scale projects such as this one.

This will have an actuarial effect on the plan. However, based on incomplete information regarding affected population numbers, our consulting actuaries are unable to attach a dollar figure to this actuarial effect. Currently, the normal cost rate for the average employers' general service payroll is 9.4%, and for their police and fire payroll, it is 14.2% (this being a percentage of the employer's payroll).

While hazardous position members will not receive the same benefits as police and fire members, they will receive increased benefits relative to general service members. This means employers would be charged somewhere in between these two numbers for the hazardous position portion of their payroll. Initial actuarial estimates show a 3.3% to 3.75% normal contribution rate range of increase over and above the general service normal cost rate due to the type of increased benefits provided.

Because hazardous position members can use prior service in the same position to qualify for the reduced retirement age, this will create an amount of unfunded actuarial liability, as those increased benefits will not have time to be funded within the plan. Given that, as of yet, we do not have clarity around the number of potential hazardous members, this amount can not be calculated at this time.

Our consulting actuaries have suggested, for equity concerns, that this portion of the unfunded actuarial liability be charged directly to the affected employers, rather than spread across the entire UAL pool, as that is currently pooled at one rate for every employer under OPSRP.

This would be modeled upon the transition liability charged directly to the relevant employers to cover that initial, unfunded increase in benefits. A transition liability acts as an addition to the employer's pooled contribution rate. The actuary would calculate, for each employer with hazardous position members, a liability amount that would be amortized over a 20 year period. A transition liability protects the other participants in the pool by ensuring that it does not take on new liabilities not of their making.

This legislative concept is large enough that implementation, including effective date timelines, would need to be approached in a methodical, planned manner. This is not currently something the agency would be able to implement by the 1/1/2025 effective date.

The agency currently does not have the capacity to implement or execute this concept, however, we do look forward to continued conversations with stakeholders and the legislature regarding both how this concept should look, the best way to implement this concept and the timing required to implement.