

HB 4045 B BUDGET REPORT and MEASURE SUMMARY

Carrier: Sen. Taylor

Joint Committee On Ways and Means

Action Date: 02/28/24

Action: Do pass the B-Eng bill.

Senate Vote

Yeas: 10 - Anderson, Campos, Dembrow, Findley, Frederick, Gelser Blouin, Girod, Knopp, Sollman, Steiner

Exc: 1 - Hansell

House Vote

Yeas: 13 - Breese-Iverson, Evans, Gomberg, Helfrich, Holvey, Lewis, Mannix, McLain, Owens, Pham K, Sanchez, Smith G, Valderrama

Prepared By: Renee A. Klein, Department of Administrative Services

Reviewed By: John Borden, Legislative Fiscal Office

Public Employees Retirement System

2023-25

Budget Summary*

	2023-25 Legislatively Approved Budget ⁽¹⁾	2024 Committee Recommendation	Committee Change from 2023-25 Leg. Approved	
			\$ Change	% Change
Other Funds Limited	\$ -	\$ 2,037,532	\$ 2,037,532	100.0%
Total	\$ -	\$ 2,037,532	\$ 2,037,532	100.0%

Position Summary

Authorized Positions	0	27	27
Full-time Equivalent (FTE) positions	0.00	8.71	8.71

⁽¹⁾ Includes adjustments through January 2024

* Excludes Capital Construction expenditures

Summary of Revenue Changes

Revenue for Public Employees Retirement System (PERS) administrative costs are funded under ORS 238.610 that directs the administrative operations expenses for PERS are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Summary of General Government Subcommittee Action

The measure contains provisions that modify select pension benefits for PERS. This measure takes effect January 1, 2025; however, the measure contains various operative dates as well as a repeal date related to a reporting provision.

Benefit Modifications

The measure includes the following provisions:

Oregon Public Service Retirement Plan - Police and Fire Benefit Modification: Lowers prospectively the normal retirement age for police officers and firefighters under the Oregon Public Service Retirement Plan (OPSRP) with the normal retirement age changed from the earlier of age 60 or age 53 if the member has 25 or more years of retirement credit to the earlier of age 55 or age 53 if the member has 25 or more years of retirement credit. This provision applies to active and inactive non-retired members (not employed in a PERS-eligible position but who retains a vested right to a future PERS retirement benefit due to prior PERS-eligible employment). This benefit

becomes operative on January 1, 2025 (2023-25 biennium) and will be reflected in employer contribution rates during the 2025-27 biennium (2023 actuarial valuation).

Elected District Attorneys - Police and Fire Benefit: Recategorizes prospectively elected district attorneys from General Service to Police and Fire members in Tier One, Tier Two, and OPSRP pension plans, which would provide higher benefit multipliers and a lower normal retirement age. Applies to active and inactive non-retired members. This benefit becomes operative on January 1, 2025 (2023-25 biennium) and will be reflected in employer contribution rates during the 2025-27 biennium (2023 actuarial valuation).

Oregon State Police Forensic Scientists and Evidence Technicians - Police and Fire Benefit: Recategorizes prospectively Oregon State Police (OSP) forensic scientists and evidence technicians, at the discretion of the OSP Superintendent, in Tier One, Tier Two, and OPSRP pension plans from General Service to Police and Fire members, which would provide higher benefit multipliers and a lower normal retirement age. Applies to active and inactive non-retired member. This benefit becomes operative on January 1, 2025 (2023-25 biennium) and will be reflected in employer contribution rates during the 2025-27 biennium (2023 actuarial valuation).

Oregon Public Service Retirement Plan - Hazardous Position Pension: Establishes a new “hazardous position” classification within the OPSRP pension plan with higher benefit multipliers and earlier normal retirement eligibility than OPSRP General Service (state and local members). The final average salary benefit multiplier would be 1.8% of pay for service accrued in the new hazardous position classification. The normal retirement age would be the earlier of age 60, or age 58 with 25 years of retirement credit. Membership in the new classification is limited to: (a) qualifying employees of the Oregon State Hospital employees (“Oregon State Hospital” is undefined by the measure); and (b) telecommunicators under ORS 181A.355. This benefit becomes operative on January 1, 2030 (2029-31 biennium) and will be reflected in employer contribution rates during the 2031-33 biennium (2029 actuarial valuation). This benefit is retroactive back to January 1, 2019 for qualifying members and applies to active and inactive non-retired members. While the measure is silent at whose discretion hazardous position classifications are made, such decisions are presumably made by member’s employers through administrative rule. Tier One or Tier Two members do not qualify for participation in the hazardous position classification, even if their positions would otherwise qualify. The PERS Board is required to separately establish the pension liability of employers for the hazardous position classification and charge employer contribution rates accordingly. The measure allows PERS to take action on the new hazardous position classification change before January 1, 2030.

Employer Contribution

Employer contribution rates have already been adopted and published by the PERS Board for the 2023-25 biennium. These rates will remain unchanged for the 2023-25 biennium regardless of the passage of this measure. In the fall of 2023, the PERS Board, released advisory employer contribution rates for the 2025-27 biennium with final rates planned for adoption in the fall of 2024, which will need to account for the impact of this measure other than the hazardous benefit classification. The changes to employer contribution rates under this measure by

the four benefit modifications represent the change of reducing General Service pension contribution rates and increasing either Police and Fire or Hazardous pay classification pension contribution rates.

PERS' consulting actuary estimates that the lowering of the normal retirement age for police officers and firefighters in OPSRP will increase employer contribution rates from 10.55% General Service to 15.14% Police and Fire or by 4.59% (change of +44%). PERS' consulting actuary estimates that the lowering of the normal retirement age for police officers and firefighters is that OPSRP will increase employer contribution rates from the entire OPSRP rate pool, both General Service as well as Police and Fire, from 17.76% to 18.62% or by 0.86% (change of +4.84%). Stated differently, the lowering of the normal retirement age for police officers and firefighters means that OPSRP will increase employer Police and Fire contribution rates by 0.79% and the UAL contribution rate for the entire OPSRP rate pool by 0.07%. This is currently estimated to add \$10 million in additional employer contributions for Police and Fire employers and \$9.7 million across all OPSRP employers per biennium (based on 2022 biennialized payroll costs).

The consulting actuary for PERS estimates that the creation of a new hazardous position classification will increase affected employer rates (those employers who employ members in hazardous positions) by an average of 4.95% above their current general service contribution rate. This will apply to employers who have hazardous position members on their payroll.

Change in Funded Status

PERS' consulting actuary estimates that the lowering of the normal retirement age for police officers and firefighters under would increase on a one-time basis the Unfunded Actuarial Liability (UAL) by \$110 million total funds. The current estimate of the 2023 UAL, exclusive of this measure, is \$22.8 billion with the funded status of the system of 78% with side accounts. The impact to recategorizing elected district attorneys from General Service to Police and Fire members and recategorizing OSP forensic scientists and evidence technicians is expected to have a de minimis impact on the UAL.

The consulting actuary is currently unable to accurately estimate the UAL impact of the new hazardous benefit plan, as the actuary requires population-specific demographic data from effected employers to calculate a more precise estimate (e.g., mortality, retirement, disability incidence, termination, salary increase factors or Final Average Salary, etc.). Based on initial estimates using all 911 telecommunicators and all Oregon State Hospital employees, there could be an increase in normal cost to affected employers of 2.75% and an additional UAL rate for affected employers of 2.20%, for an increase in affected employer rates of 4.95%.

Federal Tax Qualification

PERS is a qualified governmental defined benefit plan under Internal Revenue Code (IRC §401(a)). Any change to the PERS defined benefit plan therefore needs to be compliant with federal code to avoid having the plan's tax qualified status revoked and exposing PERS members to an additional tax liability. Therefore, any benefit changes related to providing enhanced benefits must substantively fall within the Internal Revenue Service definition of a "qualified public safety employee," under the IRC 72(t).

Reporting

PERS is required to submit biennial reports to the legislature on the progress of implementing the hazardous position classification up until January 2, 2030.

Administrative and Implementation Costs

PERS' administrative and implementation costs are estimated to be \$2 million Other Funds and 27 limited duration positions (8.71 FTE) for the 2023-25 biennium and \$2.2 million Other Funds for services and supplies for the 2025-27 biennium. The 2023-25 biennium funding will be used to implement the Police and Fire provisions of the measure through a non-automated approach as well as administrative cost to implement the new benefit plans (e.g., information technology, benefit calculations, policies and procedure updates, financial reporting, training, outreach, etc.). Funding for the 2025-27 biennium will be used to automate the Police and Fire provisions of the measure, including the cost of consulting actuary.

The cost to implement the Police and Fire provisions is estimated to total \$4.2 million and 27 limited duration positions (8.71 FTE) in the 2023-25 and 2025-27 biennia. The cost to implement the hazardous benefit plan is estimated to total \$18.4 million Other Funds and 56 limited duration positions (43.71 FTE) in the 2027-29 and 2029-31 biennia.

The completion of SB 1049 is unimpacted by this measure and has an estimated completion date that remains unchanged at June 2025. The completion of Police and Fire classification changes in this measure will use a manual process for the duration of 2025 until such time as an automated process can be put into place, which is estimated to be January 1, 2026. PERS will continue work on a multi-biennia modernization program that has a six-year development and implementation effort, followed by two years of stabilization. The develop the hazardous classification pension plan is scheduled to be complete by January 1, 2030. PERS states, however, that the measure may risk delaying the completion of the modernization project.

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

Public Employees Retirement System
Renee Klein - 971-900-7691

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
<u>SUBCOMMITTEE ADJUSTMENTS</u>									
SCR 500-01 Central Administration									
Personal Services	\$ -	\$ -	\$ 316,153	\$ -	\$ -	\$ -	\$ 316,153	7	1.25
SCR 500-04 Information Services									
Personal Services	\$ -	\$ -	\$ 540,624	\$ -	\$ -	\$ -	\$ 540,624	4	1.50
SCR 500-08 Operations									
Personal Services	\$ -	\$ -	\$ 1,180,755	\$ -	\$ -	\$ -	\$ 1,180,755	16	5.96
SUBCOMMITTEE RECOMMENDATION *	\$ -	\$ -	\$ 2,037,532	\$ -	\$ -	\$ -	\$ 2,037,532	27	8.71
% Change from 2023-25 Leg Approved Budget	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%

*Excludes Capital Construction Expenditures