Summary of Legislative Actions Affecting the Budget

Public Employees Retirement System Reform (SB 1049)

SB 1049 was a legislative initiative to primarily address future Public Employees Retirement System (PERS) employer contribution rate increases.

For the 2021-23 biennium, system-wide employer contribution rates had been expected to increase from 18.31% to 24.07% of eligible payroll, or by +5.76%, which would have been 41% higher than the PERS adopted rates for the 2019-21 biennium. This would have resulted in a projected $1.6 billion increase in employer contributions and been in addition to the $1.1 billion increase in employer contributions for the 2019-21 biennium.

SB 1049 is expected to reduce system-wide collared employer contribution rates by 5.43% and reduce employer contributions by between $1.2 to $1.8 billion a biennium beginning with the 2021-23 biennium and into the future. To achieve these savings, SB 1049 made the following changes:

- Tier 1 and Tier 2 Unfunded Actuarial Labilities are re-amortized, on a one-time basis, from 20-years to 22-years after which point the amortization schedule for these benefit plans revert to 20-years. This change is for the 2019 actuarial valuation only.

- Redirects a portion of employee contributions from the employee's defined contribution plan, the Individual Account Program (IAP), to partially fund prospectively 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. Redirected funds will lower or offset the employer contribution resulting in employer savings. The redirect for each benefit plan, which begins on July 1, 2020, are as follows: (a) Tier One: 2.5% of eligible salary and wages; (b) Tier Two: 2.5% of eligible salary and wages; and (c) Oregon Public Service Retirement Plan (OPSRP): 0.75% of eligible salary and wages. Employees have the option to voluntarily contribute into their IAP account the amount of redirected funds on an after-tax basis.

- Places a limit on the Final Average Salary, or salary used for pension benefit calculations, of $195,000 for Tier 1, Tier 2, and OPSRP employees retiring under Formula Plus Annuity and Full Formula benefit plans and for service beginning on or after January 1, 2020. The $195,000 cap is indexed to inflation on an annual basis.

- Eliminates restrictions on annual hours of employment for retired workers and the exemption on employers paying contributions on retired member payroll, beginning January 1, 2020. Employer's must continue to make employer contributions with regard to a participating retired member; however, such retirees will accrue no additional PERS retirement benefits. The employer contribution will be credited to an employer account as an additional payment above normal contributions. The return-to-work provision sunsets on January 2, 2025.

SB 1049 makes no change to the 2019-21 employer contribution rates previously adopted by the PERS Board and therefore there are no assumed savings in the 2019-21 biennial budget from the measure. Any savings generated during the 2019-21 biennium due to various operative dates of the SB 1049 will be used to offset future employer contribution rates beginning with the 2021-23 biennium.

SB 1049 makes other changes to improve PERS system financing, including:

- Appropriating $100 million of General Fund, on a time-time basis, for expenditure into the Employer Incentive Fund, whose purpose is to provide a state 25% match on pre-paid employer contributions, or side accounts, for school districts, community colleges, and public universities, under certain eligibility requirements. The corresponding employer match is up to 75%. The $100 million appropriation is assumed to generate $400 million in matching funds for a total increase in PERS assets of $500 million.

- Adds assets to the system by dedicating all net lottery revenues from sports betting games revenue to the Employer Incentive Fund to fund the state's 25% match on qualifying employer side accounts. 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. 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.

- Allows employers making lump sum or side account payments in excess of $10 million to choose the starting date for the amortization period to begin offsetting employer contributions. This allows the employer to time the use of side accounts with an anticipated spike in employer contribution rate increases. At least one large public entity anticipates making a $10 million side account contribution under this authority (Port of Portland).

- Enhanced review of local government Pension Obligation Bond issuances.

SB 1049 also provides Individual Account members a choice in selecting investment options beginning January 1, 2021; requires the PERS Board to report to the Legislature on changes to actuarial methods and assumptions; and makes technical changes to SB 1566 from the Legislative session in 2018. SB 1049 provides for an expedited review by the Oregon Supreme Court.

Of additional note, and apart from SB 1049 or other legislation, is that the State Accident Insurance Fund (SAIF) anticipates making a $91 million side account deposit to fund SAIF's Unfunded Accrued Liability.

The cost of implementation of SB 1049, as estimated by PERS, totals $40 million. Such costs are funded by revenue transfers from the retirement trust funds.