

HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

January 21, 2003 Hearing Room E
3:00 p.m. Tapes 5 - 6

MEMBERS PRESENT: Rep. Tim Knopp, Chair
Rep. Alan Brown, Vice-Chair
Rep. Deborah Kafoury, Vice Chair
Rep. Greg Macpherson
Rep. Mary Nolan
Rep. Dennis Richardson

MEMBER EXCUSED: Rep. Wayne Scott

STAFF PRESENT: Cara Filsinger, Administrator
Annetta Mullins, Committee Assistant

MEASURE/ISSUES HEARD: Public Hearing and Work Session
HB 2001
Public Hearing
HB 2004
HB 2005

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
Tape 5, A		
004	Chair Knopp	Calls meeting to order at 3:09 p.m. and opens a public hearing on HB 2001.
<u>PUBLIC HEARING – HB 2001</u>		
	Mark Johnson	Actuary for the Public Employees' Retirement System (PERS). Advises members that he was asked to look at HB 2001 with the hard cap. Explains they are predicting the benefits and trying to finance it. Advises that the issue is how big the account will be when employees retiree. Assumption is accounts will be credited at 8.5 percent. Understands that a question of the committee was what would cause him not to predict 8 percent. Explains the concept was one that appears in the amendment in paragraph (c). Explains that as long as the system has an unfunded liability, interest of not less than eight percent would be credited to Tier I accounts. Explains that they amortize the deficit over 26 years. Alternatives to paragraph (c) would need to provide an extreme level of confidence that the Board was going to fund the goal in paragraph (b)—that is to set aside enough money. The board has moved toward its goals. If this committee is not comfortable with paragraph (c), paragraph (b), should be strengthened so it is clear the Board can take the approach of funding the deficit.
	Rep. Macpherson	Asks if the reserve dollars need to be held in those years when earnings are under 8 percent.
	Johnson	Suggests language in paragraph (b) should be stronger.

	Rep. Nolan	Comments that the shrinking principal raises a question because the liabilities are not shrinking. Asks for clarification on the calculations.
	Johnson	Explains that the statute requires eight percent earnings. Explains the difference in earnings at a rate lower than eight percent and the eight percent statutorily requirement depletes the reserve and the reserve is now a deficit reserve. Explains when a Tier I member might expect to receive more than the eight percent return.
176	Rep. Richardson	Recaps history of guaranteed rates and earnings in PERS. Asks if there could be a time when the four year average could be less than 8 percent.
	Johnson	Explains that the projection is always looking forward. Explains the reserve set aside for retirees.
244	Rep. Macpherson	Asks if there will be another witness to answer a question on the Fiscal Impact Statement (EXHIBIT A).
	Chair Knopp	Responds that the statement was prepared by Legislative Fiscal and the committee can have them respond to the statement.
	Rep. Macpherson	Asks Johnson to comment on the savings shown on the Fiscal Impact Statement (EXHIBIT A).
	Johnson	Explains the Fiscal Impact Statement. States that the employers are financing the excess over eight percent that is credited.
	Chair Knopp	Closes the public hearing and opens a work session on HB 2001 to discuss the amendment to paragraph (b) of the measure.

WORK SESSION – 2001

334	Chair Knopp	Comments he would like to find out how to strengthen paragraph (b) and still achieve the same objective.
	Greg Hartman	Attorney, representing the PERS Coalition, consisting of the public sector unions in the state. Explains that he met with Mark Johnson and Dave Heynderickx to discuss the HB 2001-1 amendments (EXHIBIT B) and whether they can deal with paragraph (b) to strengthen it and to also eliminate the need for paragraph (c). Expresses concern about paragraph (c). Suggests that if paragraph (b) can be made stronger to assure that the amount of the fund is sufficient to make sure it is an adequate reserve, and to make it clear that the Board has no discretion to make any distribution over and above the eight percent, or whatever the assumed rate happens to be, unless and until that amount is fully funded. States that Johnson indicated, tentatively, that he thinks that would be sufficient to allow him to make the change in the assumption without crediting member accounts from the current eight and one-half percent to eight percent.
	Hartman	States the PERS coalition is on board with the concept and with the goal. Believes they can word-smith the language where everyone will feel comfortable that they have achieved the goal.
358	Dave Heynderickx	Explains PERS Board policy on paying into reserve. The Board only sets the goal. Explains language in paragraph (b).
407	Hartman	Speaks in favor of Heynderickx suggestions and explains their understanding of how it would work.
	Rep. Nolan	Asks how the negative growth impacts the considerations they are looking at.
	Heynderickx	Comments on establishment of the reserve and using assumptions on how the fund will perform.

TAPE 6, A

028	Chair Knopp	Asks if paragraph (c) potentially draws litigation based on the fact that it appears to be using employee money for what could be an employer
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responsibility.
Hartman States that HB 2001 as drafted sets inconsistent goals. Explains his statement.
Chair Knopp Asks if (b) is strengthened, whether paragraph (c) could be deleted.
Hartman Responds affirmatively.
Chair Knopp Asks that the parties work together to correct the amendments.
Chair Knopp Closes the work session on HB 2001 and opens a public hearing on HB 2005.

PUBLIC HEARING – HB 2005

Cara Filsinger Administrator. Explains HB 2005.
Rep. Bob Ackerman Speaks in favor of HB 2005 (**EXHIBIT C**).
113 Mary Botkin AFSCME and PERS Coalition. Speaks not in support of or in opposition to HB 2005. Gives history of make up of PERS Board.
Asks that the board, regardless of the number of members, be responsible and representative of its members.
190 Rep. Macpherson Asks if the language in the bill would prohibit anyone who is or has been a member of the system or beneficiaries from serving on the Board.
Botkin Agrees that Rep. Macpherson’s reading is correct.
212 Rep. Richardson Asks what proportion of Oregonians would be precluded from service on the PERS Board.
Botkin Responds that one out of 10 would not be allowed to serve.
236 Rep. Richardson Questions why a five-member board might make a different decision that a 12-member board if the board has the same mandate.
276 Rich Peppers Service Employees Nation Union, Local 503 (OPEU). Comments they appreciate the intent of the bill; their concern is there is no involvement by participants. Comments on survey by NEA around the country related to membership of plans.
326 Chair Knopp Asks if they would be satisfied with one participant on the board.
Peppers Responds one would be appreciated and two would make them more comfortable but the coalition has not discussed a number.
Rep. Macpherson Asks what the rate of attendance of board members has been.
Peppers Responds positively to attendance of members.
Botkin Comments on persons who would qualify to serve on the board.
413 Chair Knopp Comments on qualifications in the bill.
433 Chair Knopp Asks for clarification of expenses.
435 Steve Delaney PERS staff. Explains per diem and expenses for members of the PERS Board.
Chair Knopp Asks how many of the terms of the Board members have expired.
Delaney Responds that nine of the 12 terms have expired.
450 Chair Knopp Asks Delaney to provide a roster of PERS Board members, including the expiration dates of the three unexpired terms.
Chair Knopp Closes the public hearing on HB 2005 and opens a public hearing on HB 2004.

TAPE 5, B

PUBLIC HEARING – HB 2004

014	Chair Knopp	Comments that Greg Hartman wants to testify on HB 2004 but is not here today. Advises that HB 2004 will be rescheduled. Asks that Steve Delaney request Jim Voytko to testify.
	Chair Knopp	Closes the public hearing on HB 2004.
042	Chair Knopp	Adjourns meeting at 4:13 p.m.

EXHIBIT SUMMARY

A – HB 2001, Legislative Fiscal Statement, staff, 2 pp

B – HB 2001, HB 2001-1 amendments, Rep. Knopp, 1 p

C – HB 2004, prepared statement, Rep. Ackerman, 5 pp