

HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

January 23, 2003 Hearing Room E
3:00 p.m. Tapes 7 - 8

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
 Rep. Wayne Scott

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

MEASURE/ISSUES HEARD: **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 7, A		
004	Chair Knopp	Calls meeting to order at 3:07 p.m. and comments on Governor Kulongoski's press conference. Outlines committee's work load and agendas for the coming week.
<u>WORK SESSION – HB 2001</u>		
027	Chair Knopp	Notes the HB 2001-2 amendments (EXHIBIT A) and the Legislative Fiscal Statement (EXHIBIT B).
033	Dave Heynderickx	Reviews directions to Counsel at the last meeting for preparation of amendments. Explains HB 2001-2 amendments (EXHIBIT A).
069	Jim Voytko	Executive Director, PERS. States he will not indicate to the Board in the future they have the opportunity to credit above eight percent. Explains why.
089	Chair Knopp	Acknowledges comments of Voytko are accurate.
	Voytko	Advises committee that Johnson, Heynderickx, and he are in agreement. Explains future actions of the actuary.
106	Rep. Richardson	Asks if it is correct that the projections are based on 40 years.
	Voytko	Responds affirmatively.
	Rep. Richardson	Asks if this amendment provides for those years when the projection is not for eight percent.
	Voytko	Comments on requirements of the Board to set aside funds and the challenge is for the staff and Board to determine the amount for the reserve.
133	Chair Knopp	Asks if Weyand can explain the differences between the types of funds (EXHIBIT B).
	Chair Knopp	Asks if this will be about an \$80 million funding need for school

		districts.
	Dallas Weyand	Legislative Fiscal Office. Responds affirmatively and states they expect the school districts to come to the legislature for those funds.
165	Chair Knopp	Asks how much of a problem it would be for PERS to determine what portion of the \$80 million is for each school district.
	Voytko	Responds that the schools are pooled and PERS' knowledge is limited; it is probably not something PERS staff can produce in the appropriate timeframe.
	Chair Knopp	Asks how much staff time is needed.
	Voytko	States they will attempt to do it but they do not have comfort in committing to two weeks.
	Chair Knopp	Comments that he supports updating the PERS computer system to provide more information.
	Voytko	Explains what is needed to run figures on school districts.
229	Rep. Richardson	Asks if the present unfunded deficit is about \$17 billion.
	Voytko	Responds it changes every day; it was \$14.8 billion as of December 31, 2002.
	Rep. Richardson	Asks what the deficit might be currently.
	Voytko	Comments that if the assumed rate is lowered to 7.5 percent, it means that from this point forward they expect one-half percent return on the assets. Explains that the funding stream must be replaced by some other funding stream. The only funding scheme that can be changed is employer rates; those would go up. Suggests the committee may want to look into "partitioning" to try to avoid that consequence by keeping the assumed rate and the investments that justify it at one level for most parts of the fund but not necessarily for some of the liability-generating parts of the fund which they would invest differently which would produce a lower expected rate of return. That would avoid the spike up in employer rates.
	Steve Delaney	PERS Legislative Liaison. Explains the \$17 billion figure.
	Voytko	Explains further the \$17 billion.
290	Brian Delashmutt	PERS Coalition. Reports that after consultation, they think the HB 2001-2 amendments are a good improvement and they are in support of the bill. Comments on the Legislative Fiscal Statement (EXHIBIT B).
310	Chair Knopp	Asks if Delashmutt believes further amendments will not be needed on the Senate side.
	Delashmutt	Responds he is comfortable with the bill in its current form, and Hartman is comfortable with it. Does not anticipate any changes in the Senate.
	Chair Knopp	Comments on agreements and moving forward.
338	J. L. Wilson	National Federation of Independent Businesses, Oregon (NFIB). States that employers are clear and adamant that PERS is most important and they endorse HB 2001 with the amendments.
	Joe Swinehart	Associated Oregon Industries (AOI). Speaks in support of HB 2001. States that AOI also supports the Governor's stand on mortality tables and changing the Board membership.
	Russ Walker	Northwest Director of Citizens for Sound Economy. States they are pleased with the efforts to reform PERS. Supports HB 2001 with the amendments and also supports the Governor's comments earlier today.

431 Rep. Brown **MOTION: Moves to ADOPT HB 2001-2 amendments dated 1/23/03.**
VOTE: 7-0-0

Chair Knopp **Hearing no objection, declares the motion CARRIED.**

469 Rep. Macpherson **MOTION: Moves HB 2001 to the floor with a DO PASS AS AMENDED recommendation.**

Rep. Brown **Comments on meaningful efforts of those involved in passage of the bill and on the entire issue of PERS reform.**

Chair Knopp **Expresses his appreciation for efforts and cooperation in working on PERS reform and states that he wants to make sure everyone is included in the discussions.**

VOTE: 7-0-0

518 Chair Knopp **AYE: In a roll call vote, all members present vote Aye. The motion CARRIES.**
Rep. Knopp will lead discussion on the Floor.

TAPE 8, A

040 Chair Knopp Closes the work session on HB 2001 and opens a public hearing on HB 2004.

PUBLIC HEARING – HB 2004

Jim Voytko Director, Public Employees' Retirement System (PERS). Submits presentation materials on Actuarial Equivalency Factors: An Overview (**EXHIBIT C**). Explains contents of the presentation package.

Voytko Reviews mortality table policy (**EXHIBIT C, pages 3 and 4**).

080 Voytko Continues presentation on mortality tables.

159 Voytko Continues presentation (**EXHIBIT C, pages 6 and 7**).

224 Chair Knopp Asks what would happen to the line (**EXHIBIT C, page 5**) under the Governor's proposal.

Voytko Explains the effects on the graph (**EXHIBIT C, page 5**) and states they want to let those employees who plan to retire on February 1 this year understand the status of the pending legislation and discussions.

275 Rep. Nolan Asks if there is anything to prevent issuing a check under the proposed scenario of January 1, 2003 immediate and full implementation, then going back and adjusting that for members so it does not create an inflated contract right.

Voytko Responds that the payment date is an administrative line in the sand; it is less a contract right. It is a commitment on the part of the member to go into retirement.

Voytko Comments on estimated payments.

321 Rep. Nolan Asks how many people are in this window

Responds there are 1,463.

334 Rep. Richardson Asks how many mortality tables there are to choose from.

Voytko Explains how the actuary chooses from the various mortality tables.

Rep. Richardson Asks what the differences are.

415 Voytko Comments he believes the differences will be in the populations studied. States he does not believe their tables would be different than those used by an insurance company.
Rep. Richardson Requests a copy of tables being used by PERS.
Rep. Macpherson Comments he believes the decision of the PERS Board to go with the green line (**EXHIBIT C, page 5**) was based, at least in part, on advice received from the Department of Justice about the issue of tax qualification. Asks if Voytko can speak to the issue.

TAPE 7, B

050 Voytko Explains desire of PERS Board to maintain the accrued benefits, and requirements under ERISA.
Chair Knopp Closes public hearing on HB 2004 and opens a public hearing on HB 2005.

PUBLIC HEARING – HB 2005

Chair Knopp Notes the committee has two amendments to HB 2005: HB 2005-1 (**EXHIBIT D**) AND HB 2005-2 (**EXHIBIT E**).
Cara Filsinger Explains HB 2005-1 amendments (**EXHIBIT D**).
Chair Knopp Explains he feels there needs to be an age minimum in the bill.
Filsinger Explains HB 2005-2 amendments (**EXHIBIT E**).
081 Chair Knopp Comments on Governor’s desire for makeup of the Board. States that the amendment needs to be drafted. Adds that others are free to make recommendations.
Rep. Macpherson Notes there would be a position on the Board for labor and for management. Suggests those members hold the same fiduciary duties as those from the general public. Asks that the chair include that in the amendment draft.
Chair Knopp Responds he would be happy to accomplish Rep. Macpherson’s suggestion if it is legal.
125 Chair Knopp Comments he would like to go to work session on HB 2005 next Tuesday. Asks that members get their ideas together to prevent having conflicting amendments.
NOTE: The list of PERS Board members requested by the committee at the previous meeting is submitted by PERS staff and is hereby made a part of these minutes (EXHIBIT F).
146 Chair Knopp Closes the public hearing on HB 2005. States he does not believe it is necessary to open hearings on the other items on the agenda.
163 Chair Knopp Adjourns meeting at 4:18 p.m.

EXHIBIT SUMMARY

A – HB 2001, HB 2001-2 amendments, Rep. Knopp, 1 p
B – HB 2001, Fiscal Impact Statement, staff, 2 pp
C – HB 2004, Overview of Actuarial Equivalency Factors, Jim Voytko, 64 pp
D – HB 2005, HB 2005-1 amendments, Rep. Knopp, 2 pp
E – HB 2005, HB 2005-2 amendments, Rep. Knopp, 2 pp
F - HB 2005, list of PERS Board members, PERS staff, 2 pp