

HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

March 27, 2003 Hearing Room E
3:00 PM Tapes 39 - 40

MEMBERS PRESENT: Rep. Tim Knopp, Chair
Rep. Alan Brown, Vice-Chair
Rep. Deborah Kafoury, Vice-Chair
Rep. Jeff Barker
Rep. Tom Butler
Rep. Greg Macpherson
Rep. Dennis Richardson
Rep. Wayne Scott

MEMBER EXCUSED: Rep. Mary Nolan

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

MEASURE/ISSUES HEARD: HB 2407 – Pubic Hearing and Work Session
HB 2003 – Public Hearing
HB 2008 – Public Hearing
HB 2020 – Public Hearing
HB 2773 – Public Hearing

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.

<u>TAPE/#</u>	<u>Speaker</u>	<u>Comments</u>
Tape 39, A		
003	Chair Knopp	Calls meeting to order at 3:36 p.m. and opens a public hearing on HB 2407.
<u>HB 2407 – PUBLIC HEARING</u>	Chair Knopp	Neither seeing nor hearing any witness wishing to testify on HB 2407, closes the public hearing, and opens a work session on HB 2407.
<u>HB 2407 – WORK SESSION</u>		
008	Chair Knopp Chair Knopp	Explains the HB 2407-4 amendments (EXHIBIT A). Comments on the Legislative Fiscal statement on original bill (EXHIBIT B). The Legislative Fiscal Statement on the HB 2407-4 amendments is hereby made a part of these minutes (EXHIBIT C).
030	Rep. Brown	MOTION: Moves to ADOPT HB 2407-4 amendments dated 03/27/03 (EXHIBIT A).
032		VOTE: 7-0-2 EXCUSED: 2 - Reps. Kafoury, Nolan Hearing no objection, declares the motion CARRIED.
038	Chair Knopp Rep. Brown	MOTION: Moves HB 2407 to the floor with a DO PASS AS AMENDED recommendation.
030	Rep. Butler	Asks what happens to those who serve in the legislature a few years between other public service jobs if HB 2407 becomes law—would they roll out their existing account into the private pension, including an existing PERS account.

	Chair Knopp	Responds it would be the individual's option; they could leave the account in PERS. Notes that a person entering a term beginning July 1, 2004 would start in the new system.
	Rep. Butler	Comments he wants to make sure that people are not discouraged from taking the opportunities from other service if they are substantially vested, or those who may desire to serve for very short periods of time in the legislature.
057	Rep. Macpherson	Comments that this is a good approach generally to enhance the credibility of the process because the legislature will be working on some difficult issues over the coming weeks. This makes it clear that the members of the Assembly do not stand to gain in the process. Expresses appreciation for other members who have contributed to this bill.
069	Chair Knopp	Comments there are two schools of thought. One is that legislators should not have a pension at all. Thinks HB 2407 accomplishes what needs to be done, which is to remove any inherent conflict of interest of the legislature overseeing and being part of a class, especially at the police and fire rate. Believes legislators should be in a new system, and HB 2407 will save a fair amount of money.
091	Rep. Butler	Comments that he mentioned this bill to someone outside of the legislative process and the person's comment was, "why does this make me envision rats jumping off a ship."
	Chair Knopp	States that he sees this removing a conflict of interest.
114	Rep. Richardson	Comments that savings to state government for each legislator would be over 20 percent, the amount that would go toward their PERS retirement because of the unfunded actuarial liability; this plan sets up a six percent contribution.
124	Rep. Barker	Comments he retired from a system different than the PERS system and it was always an annoyance that the legislature was drawing a higher rate which never made any sense.
141		VOTE: 8-0-1 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 1 - Rep. Nolan The motion CARRIES. REP. KNOPP will lead discussion on the floor.
	Chair Knopp	
	Chair Knopp	Closes the work session on HB 2407 and opens a public hearing on 2773.
	<u>HB 2773 – PUBLIC HEARING</u>	
157	Leslie Lewis	Chair, Yamhill County Commissioner. Testifies in support of HB 2773 (EXHIBIT D).
165	Rep. Macpherson Lewis	Asks if HB 2773 would apply initially when someone is elected. States that currently an elected official has the option of becoming a member of PERS at the time the person is sworn in. States that Yamhill County would save money by her not being in PERS, and others would like the option to remove themselves from PERS also.
200	Rep. Macpherson Lewis	Asks if the election to not be in PERS is irrevocable. Responds affirmatively. Comments on opting to not be in PERS during her freshman year in the legislature. States that the understanding at the county is that if an elected official opts out when they are first sworn in, the person can never be in PERS.

221	Steve Delaney	PERS Legislative Liaison. Submits background material on PERS membership for elected and appointed officials (EXHIBIT E) . Explains that an election by a newly elected person to not be in PERS is an affirmative election. Explains that upon re-election the person would again be given the opportunity to decide whether to elect to begin PERS or discontinue PERS. HB 2773 would allow a person during the term of office to stop the election. Comments on buy-back provisions provided to legislators.
	Rep. Macpherson	Comments that he is hearing that for a person who declines participation, it is not irrevocable decision because if they are re-elected, even to the same office, they have the opportunity open again. States that it is an inconsistency that maybe does not have a lot of justification.
262	Lewis	Comments that she was advised by Legislative Counsel that this is the way the bill had to be drafted. States that she is satisfied with the bill the way it is.
	Chair Knopp	Comments that the committee will ask Legislative Counsel to look at the issue of continuity.
292	Rep. Butler	Comments that the savings will not be realized noticeably because the rate will go up on the remainder of the payroll.
331	Chair Knopp	Closes the public hearing on HB 2773 and opens a public hearing on HB 2003.

HB 2003 – PUBLIC HEARING

	Chair Knopp	Notes letters received from Greg Hartman (EXHIBIT F) and Bill Gary (EXHIBIT G) and advises members that Gary has requested time to talk to the committee next Tuesday.
353	Mary Botkin	Oregon AFSCME. Testifies in opposition to HB 2003 (EXHIBIT H) .

TAPE 40, A

001	Botkin	Continues presentation.
042	Botkin	Continues presentation (EXHIBIT H, page 2) .
119	Botkin	Comments on private sector comparisons with PERS.
180	Rep. Richardson	Comments that he has never heard anyone speak so eloquently in favor of the bill relating to double-dipping.
195	Rep. Barker	Comments if a contract supercedes in a disagreement.
219	Rep. Knopp	Comments that the committee will have testimony that says the pension plan is not secure; it is 66 percent funded and the employer rates will average 22.8 percent for the pickup and the system has an unfunded liability of \$16.41 billion currently. Believes if the legislature does not give the court some opportunity to say this is accurate, right and constitutional or it is not, we will end up in some sort of bankruptcy situation and does not believe the taxpayers will bail the legislature out. Believes that if this problem is not solved first, or the legislature has at least tried to solve the problem by presenting the court with opportunities, many things will go badly and it will be a downward spiral.
	Chair Knopp	Comments on efforts of everyone to seek ideas for a resolution to the problem. States he is concerned about those employees who are not making huge dollars, and is also concerned when he sees a PERS statement that says a teacher who makes \$48,000 a year can retire in six years at age 58 making over \$8,000 a month. States that money is not in the reserves where it should have

been; it is in the employee accounts. HB 2003 presents some ideas. Believes this committee will have to institute a successor system and present the court with some options as it relates to righting the system for Tier I and II employees.

301 Botkin Comments on working relationships and efforts to resolve the issues.

348 Chair Knopp Comments on timelines for the committee to act in order to meet the budget deadlines.

Chair Knopp Closes the public hearing on HB 2003 and opens public hearings on HB 2008 and HB 2020.

HB 2008 AND HB 2020 – PUBLIC HEARING

375 Jim Voytko Presents update on status of PERS system (**EXHIBIT I**).

TAPE 39, B

011 Voytko Continues presentation.
 Chair Knopp Asks if the level of funding has ever been lower.
 Voytko Responds that one level was lower but it was not a good comparison.
 Voytko Continues presentation (**EXHIBIT I**).

086 Rep. Richardson Asks if the billing notices that were sent to the school districts February 1, 2003 included the 22.8 percent rate.
 Voytko Explains the rate setting process by the PERS Board.

106 Rep. Richardson Asks if the projected numbers would be affected if employers reduce the number of employees by 10 percent.
 Voytko Responds it would to some extent. States that in previous testimony they presented information where they had broken down the rates in various components: disability, normal costs of retirement, and the unfunded actuarial liability, which is insensitive to the number of employees. States that that portion of the bill would be set on a smaller number of people and the effective rate would go up. There are two parts to the rate. One part is relatively insensitive to the number of people. One part is very sensitive and must fall over onto the smaller contributing population.
 Rep. Richardson Comments that that a 10 percent fewer population of employees would still have the same PERS liability so as a percentage the rate would go up.
 Voytko Responds that Rep. Richardson is correct.

153 Rep. Richardson Comments that the assumption was based on an eight percent investment rate of return since February 1. Asks what the effect of zero percent earnings would be.
 Voytko Responds that the effect on the health of the plan would be very bad because the liabilities grow by about eight percent per year. If the assets stay flat, that means an additional gap that needs to be added to the unfunded actuarial liability. States that within a few weeks, they will have the ability to run a model to answer the “what if” questions.
 Rep. Richardson Asks what might be the PERS cost to employers this year, when will the new rates take effect, and what would be the effect on the school districts or municipalities in the next year if there is a flat rate of return.
 Voytko Responds that the July rates the :PERS Board has passed and are scheduled to go into effect would be unaffected by a flat return in 2003. However, the rates that would be promulgated to fund the

		plan back to health in July 2005 would be larger than the ones presented today—perhaps in the range of 24 percent. If the earnings are zero this year, the rates in July 2005 will be higher, probably noticeably higher.
201	Rep. Macpherson	Asks what impact there would be on the contribution rates if there were a reduction of 10 percent reduction of the active workforce.
	Voytko	Responds he thinks it is a calculable number and would be glad to respond in writing.
	Rep. Macpherson	Comments he thinks the legislature should have an analysis of the service level and what that means for staffing levels and the implications of that for employer contribution rates.
251	Voytko	Explains that the rates would not go up until July 2005. States they do not react to layoff notices in terms of revising a rate; the rates are in effect for the full two years.
266	Rep. Macpherson	Comments on the smoothing rules and states we know higher contributions rates are coming but we aren't charging for them yet. Suggests that the impacts not be deferred.
	Voytko	Responds that he testified to the PERS Board that this deferral, while it has its positive aspects, also has its costs. One of the reasons the unfunded actuarial liability creeps up is that smoothing causes the Board to set rates slightly lower than they really need to be currently.
309	Chair Knopp	Closes the public hearings on HB 2008 and HB 2020 and announces agendas for next week.
328	Chair Knopp	Adjourns meeting at 4:55 p.m.

EXHIBIT SUMMARY

A – HB 2407, HB 2407-4 amendments, Rep. Knopp, 1 p

B – HB 2407, Legislative Fiscal Statement, staff, 1 p

C – HB 2407, Legislative Fiscal Statement on HB 2407-4 amendments, 2 pp

D – HB 2773, prepared statement, Leslie Lewis, 1 p

E – HB 2773, background information, Steve Delaney, 3 pp

F – HB 2003, review of HB 2003, Greg Hartman, 4 pp

G – HB 2003, letter in response to Legislative Counsel Opinion, Bill Gary, 41 pp

H – HB 2003, prepared statement, Mary Botkin, 2 pp

I – HB 2008 and HB 2020, prepared statement, Jim Voytko, 3 pp