

HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

April 10, 2003 Hearing Room E
3:00 PM Tapes 48 - 49

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. Mary Nolan
Rep. Dennis Richardson
Rep. Wayne Scott

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

MEASURE/ISSUES HEARD: HB 2002 – Public Hearing
HB 2328 – Public Hearing
HB 2329 – Public Hearing
HB 2400 – Public Hearing
HB 2402 – Public Hearing
HB 2406 – Public Hearing
HB 2408 – Public Hearing
HB 2635 – Public Hearing
HB 2795 – Public Hearing
HB 2928 – Public Hearing
HB 2978 – Public Hearing
HB 2979 – Public Hearing
HB 2980 – Public Hearing
HB 2981 – Public Hearing
HB 2982 – Public Hearing
HB 3314 – Public Hearing
HB 3320 – Public Hearing
HB 3595 – Public Hearing
HB 2003 – Public Hearing
HB 2008 – Public Hearing
HB 2020 – 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.

TAPE/#	Speaker	Comments
Tape 48, A		
003	Chair Knopp	Calls meeting to order and announces the order in which agenda items will be considered.
	Chair Knopp	Opens a public hearing on HB 2002.
<u>HB 2002 – PUBLIC HEARING</u>	Chair Knopp	Closes the public hearing on HB 2002 and opens a public hearing on HB 2328.
<u>HB 2328 – PUBLIC HEARING</u>	Chair Knopp	Closes the public hearing on HB 2328 and opens a public

HB 2329 – PUBLIC HEARING

Chair Knopp

hearing on HB 2329.

Closes the public hearing on HB 2329 and opens a public hearing on HB 2400.

HB 2400 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2400 and opens a public hearing on HB 2402.

HB 2402 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2402 and opens a public hearing on HB 2406.

HB 2406 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2406 and opens a public hearing on HB 2408.

HB 2408 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2408 and opens a public hearing on HB 2635.

HB 2635 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2635 and opens a public hearing on HB 2795.

HB 2795 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2795 and opens a public hearing on HB 2928.

HB 2928 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2928 and opens a public hearing on HB 2978.

HB 2978 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2978 and opens a public hearing on HB 2979.

HB 2979 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2979 and opens a public hearing on HB 2980.

HB 2980 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2980 and opens a public hearing on HB 2981.

HB 2981 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2981 and opens a public hearing on HB 2982.

HB 2982 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 2982 and opens a public hearing on HB 3314.

HB 3314 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 3314 and opens a public hearing on HB 3320.

HB 3320 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 3320 and opens a public hearing on HB 3595.

HB 3595 – PUBLIC HEARING

Chair Knopp

Closes the public hearing on HB 3595 and opens public hearings on HB 2003, HB 2008, and HB 2020.

HB 2003, HB 2008, HB 2020 – PUBLIC HEARINGS

027

Duncan Wyse

Oregon Business Council. Comments on testimony of Ron Parker at a previous meeting. States they have contracted with EconNorthwest to look at the various proposals and existing

		system, and to map out the financial implications of the various proposal on the state's fiscal condition in decades ahead. States that the Oregon Business Council highlighted PERS reform as the number one priority (EXHIBIT A) . They felt the need to develop a full accounting of the liability and to look at the various alternatives including adjustments to the existing plan and options.
052 027	Wyse John Tapogna	Introduces John Tapogna and Carl Batten, EconNorthwest. EconNorthwest. Reviews history of firm, including contracting with PERS to develop models to assist in forecasting liabilities and employer rates.
071	Tapogna	Presents PowerPoint presentation in response to three questions asked by the Oregon Business Council (EXHIBIT A) .
097	Tapogna	Continues presentation (EXHIBIT A, page 2) .
119	Tapogna	Continues presentation relating to Sources of the Problem (EXHIBIT A, page 2) .
190	Tapogna	Continues presentation (EXHIBIT A, page 3) .
255	Tapogna	Continues presentation (EXHIBIT A, page 4) .
342	Tapogna	Continues presentation (EXHIBIT A, page 5) .
438	Tapogna	Continues presentation (EXHIBIT A, page 6) .
TAPE49, A		
003	Rep. Macpherson	Asks if the witnesses would anticipate, or have, a legal analysis that says it is permissible to say we would cover the account balances that are in place currently and match them, and that would be sufficient to meet our legal obligations.
008	Tapogna	Responds they would leave that to the legal experts' determination.
010	Rep. Macpherson	Asks why they characterized the "Macpherson Plan" as compared to the "Fair Plan" and described the Macpherson Plan as a defined benefit plan rather than a combination of both, when it has both elements.
015	Tapogna	Responds they were looking at it from the perspective of the employer rates. States when they look at the employer rates, they are not considering the employer cost of the pickup. Explains they saw the defined benefit portion of Rep. Macpherson's plan replacing part of the current plan that is considered the employer contribution now for new hires, and the defined contribution portion of the plan would replace the part of the current system that is called the employer pickup. Adds that none of the employer rates shown in the presentation show any employer pickup.
025	Rep. Macpherson	Comments the witnesses refer to the cost of a defined contribution system as a six percent normal cost. Asks if they are aware that the Fair Plan proposal involves individual elections by members to decide to contribute up to six percent for general service or higher rate for police and fire. Asks if they were taking into account that many employers would not choose to make that contribution to the system.
036	Tapogna	Responds that the cost they estimated was a six percent cost to employers, which is what would happen under the Fair Plan if every employee contributed six percent.
052	Rep. Macpherson	Comments that the costs on employer rates that are referenced using a six or eight percent kind of model does not refer to the two proposals before the committee because the defined

		contribution proposal involves elective employee action.
059	Tapogna Rep. Macpherson	Responds that Rep. Macpherson is correct. Asks if it is coincidental that they used an eight percent, the cost which the actuary provided for the plan he proposed, and used the six percent which is the maximum amount in the proposal by Rep. Richardson.
063	Tapogna	Responds it is more than coincidence that they used the eight percent costs that Mark Johnson calculated for Rep. Macpherson's proposal. They believe Johnson does excellent work and that is a good estimate and it seemed Rep. Macpherson's proposal was a good representative of a defined benefit plan.
073	Rep. Macpherson	Asks if they have any experience with modeling what the actual conduct of employees is when presented with a one-for-one match opportunity.
077	Tapogna	Responds they do not have a model. States that the information provided for no new members in a defined contribution plan is not an attempt to do that; it is modeling a plan where the employers puts in exactly six percent.
086	Rep. Macpherson	Comments that the economic analysis from EconNorthwest is very helpful. Suggests that when they do the benefit analysis, there are experiences by people who work in that field that would have brought some precision to the those kinds of issues that perhaps would have been helpful for the committee to understand the real choices before the committee, and to present an elective plan as being a six percent normal cost plan is not a fair characterization of what has been presented.
095	Tapogna	Responds it was not their intention to represent this as a cost of the so-called Fair Plan.
105	Rep. Macpherson	Comments that eight percent happens to be the cost Mark Johnson calculated for the pension program within the hybrid proposal that he has brought forward, but eight percent has no particular relationship to the defined benefit costs; defined benefit plans costs six, or four, or nine, or in the case of public plans, they cost 14 or 15 percent. States that he regards the statement that they were modeling a conventional defined benefit plan and a conventional defined contribution plan as disingenuous. They were, by implication, trying to model the two proposals before the committee and yet they have not costed the effect of the defined contribution component because they have not considered the fact that it is an elective plan and it depends on employee choice, which is a critical aspect of how it functions.
117	Chair Knopp	Asks if Rep. Macpherson has information relating to experience of employee choice in a match situation that he would like to share with the committee.
	Rep. Macpherson	Responds he does not have the data himself but believes it would be important data for the committee to have.
131	Wyse	Comments that they asked EconNorthwest to do this presentation in a pretty tight timeframe and they would like to refine the information to make it clear.
139	Carl Batten	EconNorthwest. Comments that without having modeled the

		behavior of employees given choices, they believe if they were to choose less than the maximum contribution, the cost of the defined contribution plan would be lower.
146	Rep. Richardson	Asks if “and DB (8% normal cost)” and “and DC (6% normal cost)” were deleted, whether it would be correct that this would apply whether it is a defined benefit or defined contribution at six or eight percent (EXHIBIT A, page 6). Asks if this is referring to the cost to employers.
	Tapogna	Responds that is correct.
156	Rep. Richardson	Comments that Tapogna said that an eight percent return on investment is insufficient to pay the eight percent guarantee because all moneys have not been in there for the entire year. Asks what percentage return would be required to pay for a guarantee of eight percent.
166	Tapogna	Responds he has not calculated that.
174	Rep. Richardson	Comments that they indicated the levelized figure was 23.9 percent for 25 years. Asks if the employer pickup can be added to make the current employer rate 29.9 percent.
181	Tapogna	Responds, yes, assuming they continue to pay the pickup for the next 25 years.
189	Rep. Richardson	Asks if there were a termination of Tier I and Tier II and all employees were in a new plan costing either eight or six percent, the 25-year liability would go, for those paying the pickup, from 29.9 to either 13.1 or 11.1 percent.
195	Tapogna	Comments that the 11.1 and 13.1 percent do not include the pickup. Six percent would be added for those who are not currently paying the pickup.
209	Rep. Richardson	Comments that the eight percent is supposed to be an average rate of return over 40 years, and it has been over eight percent in eighteen of 26 years. Asks if it is reasonable to assume that if the eight percent were correct, in the next 12 or 20 years it is more likely than not that the returns will be less than eight percent to counter balance.
228	Rep. Richardson	Asks if \$250 million will be expended for the unfunded liability in the next biennium.
229	Wyse	Responds that if no action is taken and the rates go up by eight percentage points, there will be roughly an additional \$250 million added to the budget shortfall.
244	Rep. Richardson	States that the Fair Plan presently has a request for amendments which will provide a partial base to employees regardless of whether they pay anything into the plan to provide for the younger employees who may not have the vision to contribute on their own.
272	Chair Knopp	Announces that amendments are being drafted to HB 2003 and asks that members let him know if they wish to include amendments in HB 2003.
301	Chair Knopp	Closes the public hearings on HB 2003, 2008 and HB 2020 and adjourns meeting.

EXHIBIT SUMMARY

A – HB 2003, HB 2008, HB 2020, white paper summary, Duncan Wyse, 1 p

B – HB 2003, HB 2008, HB 2020, PowerPoint presentation, John Tapogna, 6 pp