HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

April 29, 2003 Hearing Room E
3:00 PM Tape 58

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 3020 – Work Session

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 58, A		
003	Chair Knopp	Calls meeting to order at 3:17 p.m. and opens a work session on HB 3020.
HB 3020 – WORK SESSION		
	Cara Filsinger	Administrator. Explains the HB 3020-1 amendments are from Seattle Northwest Securities and the Oregon School Boards Association **(SEE EXHIBIT H OF COMMITTEE MINUTES DATED APRIL 8, 2003)** and the HB 3020-2 amendments are from the Oregon University System **(SEE EXHIBIT G OF COMMITTEE MINUTES DATED APRIL 8, 2003).**
009	Ken Armstrong	Seattle Northwest Securities. States that John Marshall, Oregon School Boards Association, has not arrived as scheduled. Explains the HB 3020-1 amendments are an effort at trying to contain those expenses that could be taken out of the site accounts that are set up for the lump sum payments made on unfunded actuarial liabilities (UAL). The amendments are explicit that the only expenses that can be taken out of the accounts are administration expenses directly related to the administration of the accounts. The amendment further specifies in line 3 of page 4 they cannot exceed $2,500 per account per year for the first three years and then it goes down to $1,000 per account annually. The reason is that they wanted to give PERS the ability to charge adequate administrative expenses. States they have had discussions with PERS staff throughout the development of the amendments. This is to encourage employers to make their lump sum UALs via the bonding mechanism that the legislature approved, and that it be fairly restricted as to what costs can be taken out once the lump sum payments have been made.

036	Marie Keltner	League of Oregon Cities (LOC) and Association of Oregon Counties (AOC). Testifies that AOC and LOC support the amendments. States they have a number of members who have made or are thinking about making lump sum payments. Some have bonded and some have used reserves or have come up with the lump sum payment in various ways.
047	Rep. Macpherson	Asks where the figures of $2,500 and $1,000 come from and is it fixed in relation to some expected level of expense related to the accounts.
	Armstrong	Responds that the figures were originally pulled out of the air based on discussions with PERS and what they thought the costs would be.
058	Jim Voytko	Executive Director, PERS. Explains there are two types of contributions received from employers: regular scheduled contributions and lump sum contributions. Once the moneys arrive in the fund, they are indistinguishable. They are assets that are available to pay the employer's obligations to provide benefits.
069	Voytko	States that as they read the HB 3020-1 amendments they would exempt some contributions from carrying their share of the total costs of administering the system, except for the fixed charge that is mentioned in the bill for keeping the account per se. The numbers do reflect their best judgment of what today's cost would be for keeping this separate account. But it exempts these assets from the burden of paying for their share of the other costs of running the system such as litigation, IT systems, cost of general staff, cost of customer service, etc. All other contributions that have been place in accounts have to carry that burden as well as the burden of their own record keeping. These would be given separate status and would only have to bear the cost of their record keeping.
	Voytko	The second implication is that some portion of these other costs of administering the system shift to other participants. Those other participants would be those who do not make these types of contributions. They could be other employers and members, including Tier I and Tier II variable, etc. It is a policy matter and a change of direction of how the system has been funded to date.
086	Rep. Macpherson	Comments the proposed amendment addresses dollars that employers voluntarily put into the system in a sense to pre-fund amounts they would otherwise be putting in as contributions over time, and they do that by issuing bonds and deriving proceeds from sale of bonds. Asks if that is correct.
	Voytko	Responds that is correct. They have a choice to either pay an amortized rate over 26 years or pay a lump sum and have the remainder of their obligations re-factored into a new rate for the amortization period.
107	Rep. Macpherson	Comments a policy argument that could be made in favor of this proposal is that by having chosen to pre-fund, the local government employer should not be subjecting the lump sum to the general administrative costs of the system because they could have chosen to not do that—they could choose to pay as they go over time with regular contributions and would not have incurred an administrative cost on those dollars that are outside the system. Asks if that is a correct statement.

	Voytko	Responds they could have paid on a regular schedule. Then their assets would have been treated per the rules of all other assets in the system. Thinks the argument is there is something very special and advantageous about encouraging lump sums that merits them being excluded from the costs of supporting the rest of the system's activities beyond the record keeping for the money. Whether that is persuasive is for the committee to decide.
128	Voytko	States that the through experiment might be what if the entire $17 billion that is unfunded were paid, the remainder of the roughly $30 billion of assets would have to carry the costs of the system. The question is whether it is such an advantageous thing to encourage lump sum payments that it merits shifting the cost of the rest of the system onto other assets and other participants in the system. Adds that some of the other employers and all of the members have no opportunity to make lump sum payments because they do not have the financial capabilities, or in the case of members, there is no opportunity or mechanism for them to make a lump sum payment.
133	Rep. Macpherson	States the figures proposed in the amendment seem nominal for millions of dollars when bonding is pursued. Asks if that is an appropriate level of expenses.
168	Voytko	Responds that the numbers were run by their staff. They were asked to answer the question of how much it would cost to merely record keep the accounts. States that a fee does not necessarily change because of the amount of money in the account. The amendment excludes them as a source of funds for also paying for the other things. That is a different treatment than given the remainder of the assets in the fund.
175	Rep. Richardson	Comments he is trying to understand the need to assure that there is a fair burden. If this bonding is to help lower a UAL, which was not supposed to exist, he does not see how, as a policy matter, it needs to be considered.
	Voytko	Responds that all pension funds tend to pay their administrative expenses by a small fraction of money in the fund as a reflection of the total amount of services that one has to do to administer a fund, not just record keeping.. The fact that we may be short of assets is an unfortunate circumstance. HB 3020 is an instruction that says they may tie this type of asset only to the fixed amount and for this purpose and the other assets have to be tithed for the larger total costs of the system.
208	Rep. Richardson	Comments on on-going costs of running PERS and states he sees no relationship of having to tie those into a debt.
221	Chair Knopp	Asks if the HB 3020-1 amendments would cause a fiscal impact.
	Voytko	Responds he does not think the fiscal would change very much. There is no additional cost; it is a shifting of costs.
258	Chair Knopp	Asks if they have comments on the original bill.
259	Voytko	Responds that Steve Delaney gave written testimony and spoke to the issue of aligning the PERS statute with the testate statute and he has nothing to add.
247	Rep. Macpherson	Asks if Section 10 of the HB 3020-1 amendments means the cap is $3,500 forever, or whether it is $7,500 total for the first three years and $1,000 per year thereafter. .
	Voytko	Responds his reading is that it is $1,000 in perpetuity and $7,500

		total for the first three years.
294	Chair Knopp	Comments the HB 3020-2 amendments need further discussion and he does not want to consider them for this bill. Asks if the committee wishes to delay action on the bill>
277	Rep. Macpherson	Comments that it seems to him that the idea that employers would have a disincentive to bond to pre-fund their obligation under PERS by having to support the administrative costs of the system is probably undesirable. The basic idea they would be able to pre-fund without having to pickup everything in the PERS system, especially given some language that is included in HB 2003, which includes the potential that the consequences of on-going litigation could be treated as an administrative expense. State she can understand the undesirability of creating that kind of disincentive. States he is uncomfortable with the $2,500 and 1,000 figures because they seem so low and capping it by statute seems undesirable. States he is uncomfortable with the fixed dollar aspect.
	Rep. Richardson	Comments he agrees with Rep. Macpherson and does not see any benefit in making a disincentive for bonding that would make a lump sum payment to the PERS plan and essentially promoting payment over a long period of time. It is purely an accounting cost. Thinks the numbers are high if all we are doing is input and changing the numbers for this one employer's account. States that the real cost is in the office of the employers because they have to deal with bonding and they have an amount still owed to PERS unless they have paid it all off. States he has no problem with the bill and the HB 3020-1 amendments.
333	Rep. Butler	Comments that over a period of time the accounts will diminish and could anticipate they would have a $1,000 administration fee on a $15,000 account. Agrees it is an accounting transaction against the account and it should not be very expensive.
	Rep. Nolan	Notes that the amendment says "not to exceed." It is not a fixed amount and it says actual administrative cost.
389	Chair Knopp	Announces that the committee will hold HB 3020 over to Thursday and will not take up HB 3314 today.
407	Chair Knopp	Comments on third readings scheduled for bills passed out of committee.
417	Chair Knopp	Closes the work session on HB 3020 and adjourns the meeting at 3:43 p.m.

EXHIBIT SUMMARY

NONE