

HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

April 03, 2003 Hearing Room E
3:00 PM Tapes 43 - 45

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 2003 – Public Hearing
HB 2008 – Public Hearing
HB 2020 – Public Hearing
HB 3169 – Public Hearing
HB 2723 – Public Hearing
HB 2773 – Work Session
HB 2330 – 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.

<u>TAPE/#</u>	<u>Speaker</u>	<u>Comments</u>
Tape 43, A		
003	Chair Knopp	Calls meeting to order at 3:14 p.m. and opens a work session on HB 2773.
		<u>HB 2773 – WORK SESSION</u>
008	Chair Knopp	Reviews HB 2773.
010	Rep. Brown	MOTION: Moves HB 2773 to the floor with a DO PASS recommendation.
015	Rep. Macpherson	Comments he had raised a question on the bill at the public hearing but now thinks the bill will work for what it was intended to accomplish. VOTE: 7-0-2 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 2 - Reps. Barker, Kafoury
	Chair Knopp	The motion CARRIES.
028	Rep. Nolan	MOTION: Moves HB 2773 be placed on the CONSENT CALENDAR.
030		VOTE: 7-0-2 EXCUSED: 2 - Reps. Barker, Kafoury
	Chair Knopp	Hearing no objection, declares the motion CARRIED.
037	Chair Knopp	Closes the work session on HB 2773 and opens a work session

on HB 2330 for the purpose of discussion.

HB 2330 – WORK SESSION

035	Chair Knopp	Announces that Rep. Butler and Rep. Nolan are working on amendments to HB 2330.
	Rep. Butler	Explains why HB 2330 was introduced and Rep. Nolan's concern about other small districts.
055	Rep. Nolan	Comments that she has an interest in extending reasonable policy decisions to other districts as well.
	Chair Knopp	Comments that the 1039-hour issue is fairly controversial and there are varying degrees of opinions on the committee.
	Chair Knopp	Closes the work session on HB 2330 and opens a public hearing on HB 2723.

HB 2723 – PUBLIC HEARING

070	Bob Livingston	Oregon State Firefighters Council. Introduces Tom Chamberlain, a President, Portland Firefighters and executive board member for the Oregon State Firefighters. Testifies in support of HB 2723. The bill provides and allows for a deferred retirement option plan (DROP) to be implemented through the administration of the PERS agency. Notes that Section 4 specifies four years; that was not the intent. Wants to make sure it is not a double-dipping situation. HB 2723 is an attempt to try to deal with the uncertainty of the PERS debate. It is broader based to allow an option for PERS members and others to enter a DROP. A DROP can be neutral and save employers money. Portland Firefighters. Explains history of DROP and how the system works.
130	Tom Chamberlain	Comments that he would not be opposed to having a sunset on the bill.
	Livingston	Comments on history and effect of the DROP in Texas.
	Chamberlain	Asks how this reduces the disability cost.
180	Rep. Butler	Explains there is incentive to be on the DROP. Does not have the exact answer but knows the result of the study was that disability costs were reduced.
	Chamberlain	Comments he will do more research and provide an answer to the reduction of disability costs. States that only a person who is eligible to retire can enter a DROP.
	Livingston	Asks what the impact is on other government programs. Asks if this bill would require the implementation of a DROP plan for PERS and also require other systems to do the same.
224	Rep. Macpherson	Responds that is exactly what it does.
	Livingston	Enters into record a memo from Steve Delaney, Public Employee Retirement System, on DROP (EXHIBIT A).
253	Chair Knopp	Comments that the committee should pursue the costs related to HB 2723 and see if other studies have been done.
	Chair Knopp	Comments that it sounds like this bill could be very expensive.
	Rep. Butler	Closes the public hearing on HB 2723 and opens a public hearing on HB 2003.
	Chair Knopp	

HB 2003 – PUBLIC HEARING

	Chair Knopp	Advises members that the committee will be receiving amendments to HB 2003 and asks that members let him know if they want amendments to HB 2003.
	Chair Knopp	Closes the public hearing on HB 2003 and opens public hearings

on HB 2008, 2020, and HB 3169.

HB 2008, HB 2020, AND HB 3169 – PUBLIC HEARINGS

291	BethAnne Darby	Oregon Education Association (OEA). Introduces Pat West, Oregon State Firefighters Council. Comments they are looking forward to reviewing Rep. Macpherson's amendments to HB 2008 more closely but want to provide feedback on what they heard on Tuesday. States that they find the plan to be intriguing and have three areas of concern. On the Individual Account Program (IAP), it says member contribution of 6 percent may be picked up by employers. Asks if this is a floating number that would be bargained at the local level. Their concern is that it doesn't provide 28 percent for general service unless it is a six percent contribution. That could leave some of their lowest paid workers with 45 percent of the final average salary, not nearly enough to live off. They would like to see the six percent be a floor.
	Darby	States they also have concerns about age of retirement; would ask for cap to stay where it is.
334	Pat West	Oregon State Firefighters Council. States that the PERS Coalition has not discussed Rep. Macpherson's plan. They do find the plan intriguing. Their biggest concerns parallel OEA's with one exception. Disability is a big issue for the firefighters, and their biggest concern is the retirement age. Comments on performing duties of firefighter at age 55 and disability due to exposures in their working environments. Asks that it kept at 25 years of service and age 50.
451	Rep. Richardson West	Asks at what age firefighters begin their career. Responds it is higher now because of the EMS training; most are hired as paramedics. It is approximately 22 to 25 years of age.
TAPE 44, A 008	Chair Knopp Darby	Asks Darby to explain her concerns about the 45 percent. Comments that Rep. Macpherson's proposal explains that the defined benefit core would provide about 45 percent of the final average salary, and under the defined contribution component, six percent would provide 28 percent for general service and 19 percent for police and fire. They would like to see the six percent be mandatory so their members can see the potential of the 28 percent.
017	Rep. Macpherson	Explains that the core defined benefit plan would be fixed in statute and an employer would have the right to vary that, but in order to allow flexibility for local government employers they could change, up or down, the six percent by collective bargaining. States that the witnesses are asking that it be fixed in statute on the defined contribution side as well as on the defined benefit side.
	Darby	Comments she does not think they would object to allowing employees choose to have more of their salary go into it, but wants to make sure we have public employees dependent on their pension and not the other public system, they feel it is prudent to make sure that six percent is going in.
044	Brian Delashmutt	Oregon Council of Police Associations, Federation of Oregon Parole and Probation Officers (FAPO), Association of Oregon Correctional Employees (AOCE), and the Oregon Nurses Association (ONA). Comments that disability is an important

055	Rep. Macpherson	issue for police officers. It is also very important for nurses and public safety people; disability is a very strong component. Comments that it is fully his intention there will be a disability piece and the omission of that from the retirement plan does not suggest an intention of not having a solid disability piece available.
	Delashmutt	Responds he does understand that. His fear is that unless they are linked together somehow in one piece of legislation, one could pass and the other could not.
067	Jim Green	PERS Coalition. Presents letter addressed to Rep. Macpherson about their concerns on Rep. Macpherson's amendments to HB 2008 (EXHIBIT B) .
183	Rep. Barker	Asks if there is no contract language in the statute, what keeps employers 20 years from now saying they don't have the plan under which a 20-year old hires on tomorrow.
	Green	Responds that it would be a statutory plan and thinks the protection will be the legislators making sure that doesn't occur. Those members who had participated would receive the benefits due them to that point.
204	Rep. Barker	Asks who else is in the police and fire classification.
	Green	Responds he is not familiar with all those who are in that classification. Believes the teachers in the correctional facilities should not be in police and fire.
224	Rep. Macpherson	Asks if the coalition would like the opt-out provision for employers to be a one-time out at the front end, or if an employer could later withdraw.
	Green	Believes it should be at the beginning. It is a plan for new hires and the public employers should say they don't want to be in that system.
	Rep. Macpherson	Asks if they understand that opting out of the successor plan would not relieve them of their responsibility for the unfunded actuarial liability (UAL).
	Green	Responds that the employers do understand that. Defined benefit plans without a cap on costs can cost employers more over time. They are leery about a system going forward.
	Rep. Macpherson	Asks if codifying the administrative rule, along with the current statute, would be sufficient, or whether he thinks there are people who should not be in the public safety category.
	Green	Responds that teachers in Hillcrest and Maclaren should not be in that definition.
	Hasina Squires	Special Districts Association of Oregon. States that ORS 238.005 is the definitions section and encourages the committee to look at the definitions because there could be some serious savings to the State of Oregon.
	Chair Knopp	Advises committee that he is bringing HB 2407 back to the committee because the governance issue was dropped from the amendments and it doesn't say who the trustees are supposed to be. .
333	Rep. Richardson	Explains the need for a successor plan for PERS.
001	Rep. Richardson	Presents the Fair Retirement Plan, as amendments to HB 2020 (EXHIBIT C) .

085 150	Rep. Richardson Rep. Richardson	Explains computations provided by TIAA-CREF (EXHIBIT C). Explains that the calculations are based on assumptions. States this has been growing in the private sector since the 1980s. It is an opportunity for employers to have predictability, there is no unfunded actuarial liability for employers to be able to provide a fair and reasonable benefit that is for retirement and not to assume it to be a deferred compensation plan, and for employees young and old to have the benefit of an investment plan that will help them while they have control over it, and it is portable if they choose to leave.
185	Chair Knopp Rep. Richardson Chair Knopp	Asks if modeled numbers are before social security. Responds affirmatively. Asks Voytko to run computations for the proposals by Rep. Macpherson and Rep. Richardson.
183	J. L. Wilson	National Federation of Independent Business (NFIB). States that they have been absolutely committed to a defined contribution plan because they relate to it in the private sector and it is so compelling. First is the issue of credibility. The Fair Retirement Plan (EXHIBIT C) is richer than most plans in the private sector. States he has no problem with a richer benefit plan in the public sector because there probably should be some inducement to public sector employment. Believes the defined contribution plan is compelling because of its simplicity. There is an absence of variables that can be subject to legislative tweaking or creep, which is what has caused the present mess and escalating costs. And it is compelling in regard to affordability.
223	Joe Schweinhart	Associated Oregon Industries (AOI). States that AOI strongly supports this defined contribution plan as the best and fairest retirement plan for public employees in the future. It is also the most cost-effective plan for the public employers, it is portable, and these are the plans of the future.
241	Rep. Macpherson Richard Rep. Macpherson Richardson Schweinhart	Asks if the employee contribution element is individually elected, fixed in statutes, or whether employers would decide for their entire workforce. Responds that each employee would make the decision with their employer about how much of their wages they would contribute so there can be a match of the same amount. Asks if an employee must put their own money in for a true match. Responds affirmatively. It is a true match—dollar for dollar up to six percent. States that the employee could put his money in a retirement plan some place else.
282	Rep. Macpherson Rep. Richardson Rep. Macpherson	Asks if they have analyzed the extent Rep. Richardson’s proposal would benefit younger, shorter service workers. Responds they know the older employees seem to make more and this is based on a percentage so they would have higher amounts going into their plan, plus the longer they work, because of compounding their account would increase. Adds that it is portable. Asks if they have looked at an analysis in the field about the extent to which defined contribution amounts, especially in the

	Rep. Richardson	401K market, tend to remain as retirement accumulations rather than get drawn down by people mid-career who change jobs and do not roll over that money into another retirement vehicle.
337	Rep. Macpherson	States they have not spent time on determining an analysis of full utilization versus those who would cash out their plan. Believes individuals have the right to make decisions and does not want to force them to have a retirement plan they may not be able to benefit from unless they work a certain number of years. Comments on employees who have left an employer and may not know they have an account.
	Rep. Richardson	Asks if they have analyzed the impact of having participant loans —to what extent are loans taken out from the defined contribution retirement account repaid, rather than loans going into default.
	Rep. Macpherson	Responds there are restrictions on loans and there is an inherent motivation for the employee to pay it back because he is paying back his plan and the interest, essentially paying himself back. There are requirements that the loan be paid back in five years, monthly payments must be made, and the loan must be based on a promissory note.
372	Rep. Richardson	Asks if they contemplate there would be individual directions of investments, and whether that means pools within the Oregon Investment Council (OIC), or could individuals reach into the mutual fund or private annuity market.
	Rep. Macpherson	Explains there would be private administrators who would bid to be involved. They would like to have the director have four and perhaps the PERS Board would decide on more than four. Those people would put forth a series of pools and the PERS Board could determine with the investment administrators what that pool would be. Then the employee could choose his investments.
364	Rep. Macpherson	Asks if they have looked at the statistical information that has been developed in the 401K market.
	Rep. Richardson	Responds that they are having the plan evaluated by two economists and they hope to have accurate information next week.
	Rep. Richardson	Asks if there are any other states which have gone to a pure defined contribution only retirement vehicle for a state-wide public employee retirement system.
482	Rep. Richardson	Responds there are two. Michigan went from a more complex plan to a simple plan in the 1990s, and the second is Massachusetts.
013	Rep. Macpherson	Thanks Rep. Richardson for his efforts in developing the proposed plan.

TAPE 44 B NOT USED DUE TO TECHNICAL DIFFICULTIES

TAPE 45, A

013	Rep. Nolan	Comments that the proposed plan being described by Rep. Richardson purports, with 12 percent of salary and an eight percent return, to generate a replacement ratio of 76 percent, and the plan presented by Rep. Macpherson delivers the same replacement ratio in the same period of time using the same assumption but at 14 percent. Asks if they have asked Mark Johnson to evaluate it.
	Rep. Richardson	Responds that his numbers were prepared by TIAA-CREF.

		States they will be happy to present specific questions to Mr. Johnson to determine where the discrepancies are.
037	Rep. Barker	Comments he hears that the days of eight percent are gone. Asks why Oregon would not do as well using the OIC as private plans.
	Rep. Richardson	Responds it is a question of whether we want to continue having the State of Oregon in the retirement administration business, or whether this would be an ideal opportunity to go to private sector companies.
054	Rep. Barker	Asks how they feel about employees in 401K plans that have lost their retirements.
	Rep. Richardson	Responds it is a factor of timing and time. The figures developed by TIAA-CREF were as of December 31, 2002. They take into consideration the bubble of the late 1990s and the disaster of the last two years. States that in the long time, one can have the result of the long term plan. These numbers are based on those who lived through the high and low point. The eight percent actuarial assumed benefit rate that Mr. Johnson has developed is calculated taking into consideration both the good and bad points.
077	Rep. Barker	Asks if the state should pay private sector salaries and not have a retirement plan.
	Rep. Richardson	Comments on choices by employees to go to work in the public sector.
	Rep. Barker	Asks if the 26-year tail will still be there.
	Rep. Richardson	States there will be a UAL for a long, long time.
120	Rep. Butler	Comments that Oregon has lost almost as much money as TIAA-CREF has under their management.
126	Ozzie Rose	Confederation of School Administrators (COSA). Comments that he believes it is very important that there be cost containment, and it is very important that there be either a defined benefit or hybrid defined benefit plan for public employees. States the reason for a defined benefit plan is to encourage people to stay; he is not concerned about those who stay a short time.
160	Chair Knopp	Closes the public hearings on HB 2008, HB 2020, and HB 3169 and adjourns meeting at 4:50 p.m.

EXHIBIT SUMMARY

A – HB 2723, background information, Steve Delaney, 4 pp

B – HB 2008, prepared statement, Jim Green, 3 pp

C – HB 2020, proposed successor plan, Rep. Richardson, 6 pp