HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

April 08, 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 2008 – Public Hearing**
HB 2020 – Public Hearing
HB 2407-A – Work Session
HB 2003 – Public Hearing
HB 3020 – 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 43, A		
003	Chair Knopp	Calls meeting to order at 3:16 p.m. and opens a public hearing on HB2008.
HB 2008 AND HB 2020 – PUBLIC HEARINGS		
014	Rob Wagner	Director of Government Relations, American Federation of Teachers, (AFT) Oregon. Submits outline of comments on a successor plan to PERS **(EXHIBIT A).**
	Wagner	Continues presentation.
120	Wagner	Expresses objections to proposed amendments to HB 2008.
150	Wagner	Comments on Rep. Richardson's proposed amendments to HB 2020.
189	Darrell Fuller	Oregon Small Business Coalition. Testifies in support of Rep. Richardson's proposal for a successor plan as amendments to HB 2020 **(EXHIBIT B).**
234	Rep. Barker	Comments that if there were no pension, the huge cost must still be dealt with.
	Fuller	States he realizes that HB 2020, if it is amended, does not solve the unfunded mandate problem; it creates a system that will not have an unfunded liability in the future. Their coalition has not taken a position on any proposed solution to the unfunded mandate problem.
250	Rep. Macpherson	Comments that the proposed amendments to HB 2008 would have an employer cost of about eight percent of payroll and the proposed amendments to HB 2020 would have an employer cost of six percent of pay for general service employees and 7.15

		percent for police and fire. Asks if those are reasonable percentages of payroll to be committing to retirement as an incentive to workers in addition to other compensation.
	Fuller	Responds he is not sure what is standard, common, or average for retirement benefits paid into public employment retirement systems in other states and is not qualified to say what would be out of the norm or out of acceptable bounds.
	Rep. Macpherson	Asked what a reasonable percent of payroll for retirement costs is.
	Fuller	States he will not argue with someone who has background in the information. States that it needs to be adjusted based on the other parts of a compensation package. States that it should be based on what the employer can afford and what the market will bear.
301	Rep. Macpherson	Asks what would be a typical base pay as compared to incentive compensation that is variable.
	Fuller	Responds the range between the different types of dealers in his association make it difficult to speculate what an average would be.
	Rep. Macpherson	Comments on entrepreneurial spirit of public versus private sector employees.
	Fuller	Comments on his experience with DEQ entrepreneurial employees.
396	Rep. Nolan	Asks if Fuller has any comments on how to provide a comprehensive compensation plan with respect to the bills before this committee.
TAPE 47, A		
010	Fuller	Responds he believes it would be better to have a defined contribution plan for purposes of balancing the budget.
042	Rep. Nolan	Gives analogy of a person purchasing property on a mortgage and being responsible for the contract, regardless of future situations.
	Fuller	Comments on the car dealer having to cut costs in order to meet his defined contribution obligation.
124	Rep. Macpherson	Comments he has learned the projection on the pay replacement in the Individual Account Program on his outline stated about four to five percentage points of pay; the projection as a pay replacement on the outline understated the pay replacement on the defined contribution portion by several percentage points for general service and police and fire. Offers to discuss the HB 2008-1 amendments **EXHIBIT C)** and believes the amendments reflect the information in his presentation of the proposal last week.
156	Jim Voytko	Executive Director, Public Employees Retirement System. Submits explanation of questions raised at the previous regarding the HB 2008-1 amendments **(EXHIBIT D)** and to the proposal presented by Rep. Richardson as amendments to HB 2020 **(SEE EXHIBIT C OF APRIL 3, 2003 COMMITTEE MINUTES).**
251	Chair Knopp	Asks Voytko to talk about the replacement ration for the current PERS plan for 1990 to 2002. Asks what will be the high side of replacement ratios for people in Tier I and Tier II who retire between 2010 and 2025.
259	Voytko	Responds they believe there will be a very small number of people who could, based on the eight percent guarantee and a

		long service, retire at close to 200 percent if not 200 percent of final average salary. Explains that happens because of the combination of long service, the eight percent guarantee, and the events of 1996-2000 both crediting and affects in the stock market, based on their simulation, say if there are not other changes in place, we could see the high side. Would not suggest that would be typical.
	Chair Knopp	Asks if the typical rate could be 150 percent.
279	Voytko	Responds that the simulation reviewed before the House Task Force on PERS indicated that the projections for Tier I will easily exceed 100 percent, on average, during the time period of 2010 and 2025, all things being equal. The composition of the retiring people will be long service, large account based individuals. One would expect high replacement ratios under the terms of the existing plan.
294	Chair Knopp	Asks when 100 percent replacement ratio would become average.
	Voytko	Responds that it is difficult to answer the question. The simulation was done in five-year blocks and would have to review the data to try to make an estimate. It is not in the near future but cannot define a precise time period.
306	Chair Knopp	States that with the effect of the 1996-99 crediting on Tier I accounts that began in 1990, a person is likely to retire at 100 percent of final average salary, and if the person worked closer to 30 years, it could be closer to 200 percent of final average salary.
315	Voytko	Explains that the "sweet spot" for a Tier I member would be someone who came into public service enough prior to 1992, for example, with an account that was somewhat appreciable whether it was the result of long service or a high salary and higher contribution rates, and the crediting of the 1990s and the eight percent guarantee in the down years following the 1990s, would be being at the right place at the right time.
0339	Chair Knopp	Comments he does not believe anyone expected to end up with 150 or 200 percent of final average salary.
165	Rep. Nolan	Asks if Voytko knows from current experience or whether they can postulate whether someone of the few with a replacement ratio approaching 200 percent is more likely to be an executive director of a large agency as compared to a person who sweeps the floors in that agency.
	Voytko	Responds they did a replacement ratio study that actually showed that salary was not one of the big drivers of replacement ratios. Salary drives contributions and account balances but it also is in the other side of the ratio comparison. Other drivers are participation in the variable at the right time, signing on at the right time and other factors that seem to be independent of someone's status or classification in the state employee system.
	Rep. Nolan	Asks if there is a pattern among employers as to their likelihood to have a large or growing unfunded liability that could be correlated with the top heaviness of their organizational structure.
412	Voytko	Responds that if an organization had lower than expected salary increases, they would probably generate a UAL. That is because

		their contribution rates would be set too low. The income to meet the liabilities would be lower than the actuary estimated.
429	Voytko	Adds that they have not done an analysis of PERS employers on the ratio of administrators to staff or pay scales. They have seen noticeable differences with non-pooled local employers who have disabilities or unusual demographic outcomes, high turnover, or something like that which can push their normal costs higher or lower than what is observed in the pooled employer group or the system average as a whole.
TAPE 46, B		
022	Chair Knopp	Asks if it is possible that someone who was not in variable but was in the regular account to end up as one of those who retires at 150 to 200 percent of final average salary.
	Voytko	Responds he would like to check on the questions. States that when they look at replacement ratios in the simulation, they forecast the same participation in variable that has been historically true.
070	Chair Knopp	Asks how many active people in PERS have variable accounts.
	Voytko	Responds that between 20 and 30 percent of 90,000 accounts have variable accounts.
	Chair Knopp	Asks when a member can withdraw from the variable account.
	Voytko	Responds that the statute says if someone experiences losses in the variable and they fall below the level, the variable versus regular tests, they cannot take assets out of variable and convert it back to regular. Believes several thousand requests to withdraw from the variable were turned down. States that no financial planner would ever tell a 55-year old who wants to reduce their level of risk that they cannot or should not do it.
	Chair Knopp	Comments that 70 percent of active PERS members are in regular accounts and are getting credited eight percent, but in 1995-1999, they were credited about 85 percent in regular and about 120 percent in variable. Asks if those numbers are correct.
	Voytko	Responds he cannot disagree with the numbers cited by Chair Knopp.
	Chair Knopp	Comments that retirees whose checks have gone down are in variable.
	Voytko	Responds affirmatively and states that the only way a retiree's check could go down is because he/she is in the variable or because of recovery of an unlawful benefit.
078	Chair Knopp	Asks how many retirees stay in variable.
	Voytko	Responds about two to three percent of retirees stay in variable.
	Rep. Macpherson	Asks what we should do for new hires, the next generation of public employees. Asks Voytko if he has an opinion about what happens if there is an attempt to solve the problems with Tier I and Tier II by reducing the benefit level delivered to the new generation of public employees and what inter-generational kinds of tension might arise from that.
084	Voytko	Responds it is in some ways the kind of tension that exists today between Tier I and Tier II members. Comments that if there are people who have one part of their compensation package that is notably different than others, the question becomes whether the compensation package is unequal. States that if we put dollars on the pension side, particularly the defined benefit plan, that is

		the hardest part of the compensation package to change or control. It is easier, from an economist's point of view, to have salary adjust to the relatively inflexible pension part of the compensation package than to adjust the pension part of the package to the salary.
122	Rep. Macpherson	Asks if there is any public employer in Oregon that pays more cash compensation to a Tier II member than a Tier I member because of the difference in the level of benefits being earned by each.
	Voytko	Responds he is not aware of any, but also has not inquired.
	Rep. Macpherson	Comments on discrepancies in total compensation packages for Tier I and Tier II employees.
142	Rep. Richardson	Referring to the response to questions **(EXHIBIT D)** and asks if by incorporating social security the hybrid plan essentially is two defined benefit plans with a defined contribution on top.
	Voytko	Responds he would characterize it as three distinct streams in the retirement income stream, which the employee is paying for with their employer along the way.
	Rep. Richardson	Asks if one would be based on a defined benefit model and one would be based on investment return.
	Voytko	Responds that is one distinction, the other is that it provides a lifetime annuity that does not cease until the member dies. In a defined contribution plan, when the account is exhausted, the benefit ceases.
207	Rep. Richardson	Referring to Exhibit C, pages two and three, and pages six and seven, notes that on page three, the ratio is shown as 106.5 percent of income and on page 7 the initial replacement ratio is 93.5 percent. States that the assumptions and the calculations show that there is a substantial retirement benefit for both programs. Believes that shows that a defined contribution plan when consolidated with social security benefits is a defined benefit plan provided by the federal government and a defined contribution plan provided by the employer, but when joined together, they start at a 93.5 percent initial replacement ratio. Asks who has benefited best in the last three years, those n the pooled defined benefit area or those who are in more conservative defined contribution plan investments.
	Voytko	Comments on articles he has read about defined contribution plans and comments on investments choices.
261	Rep. Richardson	Asks for comparison of figures by the Oregon Investment Council (OIC) and TIAF-CREF.
	Voytko	Responds he would need to do a direct comparison but would suspect the OIC's track record was quite excellent.
	Rep. Richardson	Comments that the PERS' actuary is still indicating an assumed eight percent rate of return is reasonable for the future based on historic calculations.
	Voytko	Responds affirmative. States that is why they have used the eight percent in their calculation. Suggests the expectation should be reduced by at least a half, if not a full percentage point. States that if the reduction in the estimated rate of return of replacement ratio raises somewhat the certainty that the defined contribution side will produce what it is expected to, then it is not necessarily a bad tradeoff from the members' points

		of view.
317	Rep. Nolan	Asks if they can produce a projection on a defined contribution plan alone that operates under a scenario that is roughly an employee who started employment in 1999, or a day for the peak of the market. Explains the reason for her question, and asks how long it would take at eight percent per year to recover and reach the levels projected. Believes that kind of information would be helpful for the committee.
357	Voytko	Responds that he will run the computations.
372	Chair Knopp	Closes the public hearings on HB 2008 and HB 2020 and opens a work session on HB 2407-A.
HB 2407-A – WORK SESSION		
380	Chair Knopp	Explains the HB 2407-6 amendments. **(EXHIBIT E)**.
403	**Rep. Brown**	**MOTION: Moves to ADOPT HB 2407-A6 amendments dated 4/8/03.**
411	Rep. Kafoury	Asks if the two percent that legislators receive versus the 1.6 the general service employees receive stays in place if this bill does not become law.
	Chair Knopp	Responds it would stay in effect.
424		**VOTE: 8-0-1** **EXCUSED: 1 - Rep. Barker**
	Chair Knopp	**Hearing no objection, declares the motion CARRIED.**
427	**Rep. Brown**	**MOTION: Moves HB 2407-A to the floor with a DO PASS AS AMENDED recommendation.**
434		**VOTE: 7-2-0** **AYE: 7 - Barker, Brown, Butler, Macpherson, Richardson, Scott, Knopp** **NAY: 2 - Kafoury, Nolan**
	Chair Knopp	**The motion CARRIES.** **REP. KNOPP will lead discussion on the floor.**
449	Rep. Kafoury and Rep. Nolan	Serve notice of a possible minority report.
455	Chair Knopp	Closes the work session on HB 2407-A and opens a public hearing on HB 2003.
HB 2003 – PUBLIC HEARING		
463	Chair Knopp	Determines there are no witnesses and closes the public hearing on HB 2003.
Tape 47, B		
011	Chair Knopp	Opens a public hearing on HB3020.
HB 3020 – PUBLIC HEARING		
016	Steve Delaney	PERS Legislative Liaison. Explains HB 3020 **(EXHIBIT F).**
056	Jeannette Holman	Assistant Director for Administration and Finance, Division of State Lands. States a concern is the portion of the bill that says moneys do not escheat to the state, they go into the fund. Points out that according to the Constitution, the funds go into the Common School Fund if there is no heir or will when a person dies. States that she has checked with the office of the Attorney General and believes it is an issue that should be explored.
069	Grattan Kerans	Director, Government Relations, Oregon University System (OUS). Submits HB 3020-2 amendments **(EXHIBIT G).** Explains that the amendments are a rider to the bill and make no change to the content of the printed bill. Explains the reason for the amendments.

143	Rep. Macpherson	The election must now be made within six months of employment. This opens the window to go from the PERS to the ORP anytime.
	Kerans	Explains that the employee decision to move to the optional retirement plan would be an irrevocable decision.
164	Rep. Macpherson	Asks if they envision that the rate at the time of the decision would be binding, or whether a person could be lured into making a decision to go to the optional retirement plan and the State Board of Higher Education could cut the rate substantially two years later.
201	Kerans	Explains that they would expect all the members within the optional retirement plan would experience the same rate. Comments on research personnel and the ability to attract them to Oregon.
227	Rep. Richardson	Asks if the amendment sets this up so that a person who has been in PERS and has a huge account based on the last 20 years could move the entire account with the match over to the optional retirement plan, and be in the defined contribution plan from then on.
	Kerans	Responds he does not know about the match, but the only people who would be attracted would be those in Tier II or those who would be eligible only for some new plan, as a practical matter.
241	Mark Nelson	Public Affairs Council, representing Association of Oregon Faculties. Explains their faculty oppose the HB 3020-2 amendments **(EXHIBIT G)** because faculty need portability. Their concern is that the amendments contain the authority to set the rate. Comments on existing statute for PERS. States that if the legislature decides to lower the contribution rate to PERS, the rate of the optional plan will also lower the same amount. Gives example of effect on employees. They believe the rate in the optional retirement plan should remain the same; there should not be a differentiation from one faculty member to another as to the contribution rate.
293	Ken Armstrong	States that Seattle Northwest Securities Regional Bond Underwriting and the Oregon School Boards Association are presenting the HB 3020-1 amendments **(EXHIBIT H).** Explains they are trying to specify the amount of money that can come out of the lump sum payments for the administration of the side accounts. Notes that the amendments allow PERS to take $2,500 per year for the first three years to administer lump sum accounts and after that $1,000 per year. They are working with PERS to determine whether or not the dollar figures meet the needs of the agency to cover their costs.
	Jim Green	Oregon School Boards Association. States he has talked with Jim Voytko and they will sit down and try to resolve the issues and bring it back to the committee.
320	Chair Knopp	Closes the public hearing on HB 3020 and adjourns meeting at 5:04 p.m.

EXHIBIT SUMMARY

A – HB 2008 & HB 2020, prepared statement, Rob Wagner, 5 pp

B – HB 2020, prepared statement, Darrell Fuller, 1 p
C – HB 2008, HB 2008-1 amendments, Rep. Macpherson, 91 pp
D – HB 2008 & HB 2020, prepared statement, Jim Voytko, 11 pp
E – HB 2407, HB 2407-A6 amendments, Rep. Knopp, 1 p
F – HB 3020, prepared statement, Steve Delaney, 2 pp
G – HB 3020, HB 3020-2 amendments, Grattan Kerans, 4 pp
H – HB 3020, HB 3020-1 amendments, Ken Armstrong and Jim Green, 4 pp