

HOUSE COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEM

May 06, 2003 Hearing Room E
3:00 PM Tapes 60 - 61

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

MEMBER EXCUSED: **Rep. Deborah Kafoury, Vice-Chair**

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

MEASURE/ISSUES HEARD: **SB 325 A – Public Hearing**
 SB 258 A – Public Hearing and 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 60, A		
003	Chair Knopp	Calls meeting to order at 3:07 p.m. and opens a public hearing on SB 258 A.
<u>SB 258 A – PUBLIC HEARING</u>		
008	David Bailey	Deputy Director, Public Employees' Retirement System (PERS). Explains SB 258 A was drafted after working with Sen. Ferrioli in an effort to provide an incentive to inactive members of the system who are vested to take their member account out, and no longer have any right to a retirement benefit. The incentive is an additional fifty percent of the value of their account balance. Explains the savings come from the members not getting the money match of their account balances. Some of the wording in the bill on the timing is that the member had to be inactive January 1, 2000 was placed in the bill so that people who would normally take 100 percent of their account would not be eligible under this bill.
039	Bailey	States that the estimated savings according to the actuary is in a range of possibilities, assuming nobody under 45 would take advantage of this incentive. It would apply to any age but their assumption is few would do it. The estimates on SB 258 were done when HB 2003 was not being considered and, probably, if SB 2003 passes, one of the incentives will be lost for people to leave their money in their account and apply for a retirement benefit someday. There are two incentives to not take this incentive. One reason is they would earn eight percent, and the other is they would receive the match. HB 2003 would remove the potential for the account to grow. It is difficult to predict

		how many people will take advantage of this; they have no past experience.
063	Chair Knopp	Asks how it would work—where would the additional 50 percent come from.
071	Bailey	Responds that there would be a charge to the employer account and would become a part of the liability. It would be reflected in their rates in a positive way. This would lower the future value of benefit estimates.
070	Sen. Ted Ferrioli	District 30. Testifies in support of SB 258 A. Comments he wishes they could get a better fix on the amount it would actually save, but there is no way of knowing what the motivations of the people are. If they stay in the system until they retire, we must deal with the accruals and matches. If these folks accept the offer, this will act as a stop loss. It will pay them off to leave the system. The instantaneous savings is the balance that is left in the obligation portion of the state agency, which is estimated to be 30 percent of the total. The actual underlying obligation is real dollars and will accrue back to the agency to help pay the unfunded mandate.
123	Sen. Ferrioli	Thanks PERS for helping him with the bill. States that PERS does not know where some of the 16,000 people who hold the accounts that are not vested. Those people must be found and that is why there is an administrative overhead. Some will have a tax consequence, and others may be able to roll it into another retirement plan.
147	Chair Knopp	Comments on discussion with an active PERS member who wants to get out. Asks if that possibility has been explored.
	Sen. Ferrioli	States that this bill only affects inactive vested members and if it is successful, he would suggest that consideration be given to expanding it to a straight buyout program. Agrees with the idea that vested inactive members over 50 will think hard about this.
170	Rep. Richardson	Comments he is concerned the IRS may have concerns about the tax consequences and suggests perhaps there should be wording added to the bill about rolled the balance into a qualified plan. Asks how Sen. Ferrioli would feel about moving the effective date up.
	Sen. Ferrioli	Responds that they assumed that this would be taxable and that is why they said 150 percent. But they. It is left open, assuming it is taxable.
196	Bailey	States that the term “withdrawal” is consistent with the current statute and accounts are currently rolled over; a withdrawal is rollable by federal law.
	Sen. Ferrioli	Comments he thinks it is safer to not make mention of rollable. States they have talked about the notification process and felt the effective date would allow PERS to respond.
246	Rep. Macpherson	Compliments Sen. Ferrioli on his idea. Asks to what extent the fiscal analysis reflects the action on HB 2003 where the dynamic is recognizing too much was credited to member accounts, and to right the system we are going to have Tier 1 at a zero crediting rate for several years. Asks if we are creating a situation where members will have an additional incentive to take this option and not have the zero return that will exist for several years while we recover the over crediting.
287	Sen. Ferrioli	Responds that depending on what the earnings are from the

		restoration fund, it could be 2097 before the dollars are paid back. Doesn't know if anyone knows how long it will take to recover. The people who are not employed are not doing anything to carry their weight; the rest of the system is carrying the burden. There are people who have been planning to pull out anyway. If they do that today without the benefit of this bill, they get only what is in their account. Some of those will have a 50 percent windfall. They would not be allowed to make additional contributions and if they hold it long enough we have to double it. There are some interactions and some will get a windfall, yet there is a savings.
383	Sen. Ferrioli	Comments on his personal PERS account.
TAPE 61, A		
014	Rep. Macpherson	States that his concern is the interaction between the two bills and that the quantity of 150 percent is not right. Suggests that perhaps a fairer balance might be something less than 150 percent. Asks if Sen. Ferrioli is open to an analysis.
	Sen. Ferrioli	Responds that the incentive will be different for each person. Some will need to take the money whether there is a premium or not. Others will see that by leaving they will be earning more than if they stay in the system. We want to give them an incentive to leave.
048	Rep. Macpherson	Asks if Sen. Ferrioli is open to a reanalysis, assuming HB 2003 is enacted, whether 150 is the right quantity to provide the appropriate incentive balanced with savings.
060	Sen. Ferrioli	Comments on unknowns related to HB 2003 and states he doesn't know how to answer those questions. At 150 percent we are doing a little more than zeroing out their tax liability and others will be able to roll it over. States he has no objection to 135 percent except fewer people will have an incentive to leave the system and the savings will drop. Notes that the Legislative Fiscal Statement estimates a savings of \$3.382 million for 2003-05 and a similar amount for 2005-07 and the cost drops off to zero in 2005 (EXHIBIT A).
096	Sen. Ferrioli	Asks that if the committee is going to reformulate the bill, they should think hard about what they are trying to achieve. There are 45,000 accounts that are not vested and we would like for them to take their money, but if we keep their money, we will owe approximately twice what we owe when they retire.
085	Chair Knopp	Notes the Senate vote.
115	Brian Delashmutt	PERS Coalition. States they are fine with the bill. Comments on working with Sen. Ferrioli and requirement that the account holders must have been out of the system since 2000. States they have talked to past members about this. Some are interested and want to do some penciling and some say they will wait and go out under the normal system. Notes that savings will also be from the COLA that these people would not be receiving.
110	Chair Knopp	Asks what the dynamics would be if this were offered to active vested members.
	Delashmutt	States they are not excited about it as a concept. Believes some employees would panic, quit their public employment, withdraw their money, and run. Suggests this should be a first step to see how it does or doesn't work.
136	Steve Manton	City of Portland. States this is a good bill with a good concept.

		States they never foresaw anything that is in HB 2003. When people start looking at the dynamics of what happens with the eight percent, it will have a substantial change on the way people view this. Many people will not understand the dynamics. Does not believe that many people will go out on the money match because their eight percent will be frozen going forward. It will push people back into the formula. A formula rate is less savings for the employers. The COLA and the \$60 for insurance would go away and that is an added benefit. HB 2003 will change this substantially. Suggest perhaps the amount should be \$130 percent.
203	Rep. Nolan	Asks if they have thought about the fact that eligibility will not occur until after HB 2003 is in effect for a year which means people will already have foregone one year of earnings crediting. Seems that would nullify a good bit of Manton's concerns.
	Manton	Responds that he was thinking about people who have to make the decision and cannot retire for another three to five years versus taking their money now.
221	Rep. Nolan	Notes the requirement for the inactive status as of January 1, 2000.
	Rep. Macpherson	Comments on loss of earnings for 18 months minimum by the people who are in this group. States there is a probability that HB 2003 will be resolved by the courts by the time this bill would take effect. They will know if the suspension of the eight percent applies to their account, in all probability. Asks what the right amount might be.
263	Manton	States he believes there is a prorated eight percent through to July 1, 2003.
	Rep. Macpherson	Comments that is not the case. For the people who retire this year. There will be a prorated application but for people who leave after February 1, 2004 there would be no earnings credit for calendar year 2003, as opposed to a prorated adjustment--believes that is the case.
	Manton	States that because there is risk for the Supreme Court decision, however it may fall, if you were going to assume a risk at this date or the date when it could go forward and had to make an assumption, and did not know the Supreme Court's decision, they may want to take the money, but perhaps it should be a reduced reward, perhaps to 130 percent. There are a lot of factors that will change how people will act on this once it is enacted.
260	Chair Knopp	Closes the public hearing on SB 258 A and asks if members are willing to go to work session
298	Rep. Richardson	States he has a concern that this will not be tax qualified for rollovers.
	Rep. Macpherson	Comments he thinks they will be qualified.
	Chair Knopp	Opens a work session on SB 258 A.
<u>SB 258 A – WORK SESSION</u>		
316	Delashmutt	Comments that he believes Rep. Macpherson is correct. This is no different than the lump sum or the double lump sum at retirement, which is rollable.
	Chair Knopp	Comments he doesn't think there would be a tax consequence.

328	Rep. Nolan	Comments she thinks it is useful to offer opinions about whether there are tax consequences, but it is a little dangerous for the committee to declare intentions.
	Rep. Macpherson	Comments that whatever views are offered here should be taken just as that. This bill says the moneys are distributable and the people can roll them over to the extent they are able to roll them over.
353	Rep. Butler	Comments that while he believes the accounts are subject to being rolled over, a large portion of that is based upon federal law, which is subject to change frequently and he would not want the record to reflect that they are doing this anticipating that people would be able to enjoy some income tax benefit based on federal tax law that the legislature has very little or no control over.
372	Rep. Richardson	States he brought up the issue so as to not allow ambiguities if they can be avoided.
395	Rep. Barker	Comments he would get the opinion of a tax attorney.
	Rep. Macpherson	Comments that Rep. Nolan's comment is the controlling one. It is not the part of the legislature or this committee to be offering tax advice. Believes this should be structured the same as any distributions and the PERS agency will conclude whether it is rollable.
	Rep. Macpherson	Comments his only concern about the bill is whether the quantity is right, whether 150, given the interactions with HB 2003 and the uncertainties about HB 2003, is the right quantity.
		Comments on the need for an analysis.
438	Rep. Nolan	Comments it seems the question is whether the policy of trying to reduce the obligations of the PERS system is appropriately met by this legislation. The analysis suggests there would be savings, whether it would benefit from a reexamination, she doesn't know and doubts it would diminish the savings.
TAPE 60, B		
004	Rep. Macpherson	Comments on pricing merchandise and the need to judge by cutting the price how much more product will be moved. Notes that the Legislative Fiscal Statement on SB 258 A (EXHIBIT A) is dated April 15, before HB 2003 was actively considered.
028	Rep. Macpherson	States he would feel more comfortable acting on SB 258 A if the committee asked Legislative Fiscal Office to test the functions they went through then come back with another report.
032	Rep. Nolan	Notes that the statement assumes only 10 percent of eligible people would take advantage of this. If the incentive is reduced, we may still get 10 percent to respond.
038	Rep. Macpherson	States that the alternative to taking the option at 150 percent under HB 2003 is completely different. The analysis assumed an account that was increasing by eight percent per year. The alternative is completely different. If we leave it at 150 percent, the assumption would have to be that far more people would choose to take this option.
066	Chair Knopp	Asks how they arrived at the fiscal figures.
061	Bailey	States that the fiscal is based on what they felt was right at the time and an actuarial analysis would be appropriate because they did not look at HB 2003. Adds that this bill would take dollars out of the system which would potentially earn money which would go to reducing the unfunded liability. States he does not

		know what would dominate in the analysis but believes it is worthwhile to look at it.
096	Chair Knopp Bailey	Asks if they can have the analysis done by Thursday. Responds possibly and they will try.
106	Chair Knopp Chair Knopp	Closes the work session on SB 258 A and asks the committee to stand at ease at 4:12 p.m. pending the arrival of Sen. Nelson. Reconvenes the meeting at 4:18 p.m. and opens a public hearing on HB 325 A.

SB 325 A- PUBLIC HEARING

113	Sen. Dave Nelson	District 29. Testifies in support of SB 325 and submits the SB 325-7 amendments (EXHIBIT B). States that he represents Umatilla, Morrow, Union, and Wallowa counties and the bill was introduced at their request. Explains that those counties do not have large populations. Pendleton, the largest city, has 15,000 population. There are 26 cities and 22 school districts and the employers are hurting for people to work. When the employees retire they want to continue to work. Particularly in the education they bring stability to the system and help the school districts get through some of their financial crisis because the employers do not have to pay the PERS and other benefits.
141	Sen. Nelson	Explains the SB 325-7 amendments (EXHIBIT B). States that the 75,000 would include Umatilla County.
142	Rep. Richardson Sen. Nelson Rep. Butler	Asks how many counties this would apply to. Responds it would only apply to Umatilla County in his district. Comments he believes every county in eastern Oregon except Deschutes would qualify.
160	Rep. Richardson	Comments there are hundreds of thousands of employees who are retiring because they want to take advantage of the PERS situation and are continuing to work getting over 200 percent of their final salary. The employers are no longer paying into the PERS system and that is thwarting part of the funding for the PERS system. It means that the jobs that would have been available for other people to move up to or those coming out of college or high school to move into are not available. States that it seems we are hurting ourselves while helping in a few limited circumstances. Many areas are using this as a way to save on PERS payments but it is detrimental to the economy.
200	Sen. Nelson Rep. Richardson	States they do not have a huge demand of people wanting to move in and work and that is what they are trying to address. They cannot find people to work. Suggests that the low population may be because there are no jobs there. If there were decent paying jobs, people could be recruited in many instances.
212	Sen. Nelson	Comments that school superintendents used this under the 35,000 population last year and it was very successful. It was also good for the students because the students got the benefit of the experienced teachers.
216	Sen. Nelson	Notes that seven counties would be affected: Umatilla at 71,000; Klamath, Polk, Coos, Lincoln, Columbia, and Clatsop. The counties that were included under the 35,000 provision are Malheur Tillamook, Union, Wasco, Curry, Hood River, Crook, Jefferson, Baker, Morrow, Grant, Harney, Lake, Wallowa, Gilliam, Sherman, and Wheeler.

225	Rep. Richardson	Suggests the 75,000 figure may be the problem. Comments on retirees in Coos Bay and Klamath Falls continuing on the job. Ask why it is necessary to increase the population figure if it 35,000 served their needs with.
	Sen. Nelson	Comments on population of 7,000 in Wallowa County; the average wage is about \$18,000 a year. They cannot get people to come into the county to live.
283	Rep. Nolan Sen. Nelson	Asks what the unemployment rate is in those counties. Responds that the rate fluctuates seasonally. Because of agriculture, in the summer time the rate is down to seven or eight percent. It is sometimes as high as 15 percent in the wintertime. It is largely an uneducated workforce and most of the jobs require education and training. Adds that a lot of the people are timber workers and don't have jobs.
295	Rep. Butler	Comments that housing is not available and that perhaps land use planning should be looked at.
	Sen. Nelson	Comments that the school districts don't hire people from Oregon; they hire people from Montana and Idaho.
350	Rep. Brown	Comments on recruitment for police chief in Newport; most times there is either a promotion from within or a retired officer from another state is hired.
367	Rep. Barker	Comments he receives complaints from people in his district about people who have retired and still hold onto the jobs plugging up the system. Suggest that jobs should be opened up for people.
383	Sen. Nelson	Comments that about one-half of the superintendents of the school districts in his district are retired Washington state superintendents who have retired under the Washington system then moved to Oregon.
395	Chair Knopp	Closes the public hearing and adjourns meeting at 4:35 p.m.

EXHIBIT SUMMARY

A – SB 258, Legislative Fiscal Statement, Staff, 2 pp

B – SB 325, SB 325-7 amendments, Sen. Nelson, 1 p