

HOUSE SPECIAL SESSION BUDGET COMMITTEE ON PERS

June 20, 2002 Hearing Room D
1:30 PM Tapes 1 - 2

MEMBERS PRESENT: **Rep. Tim Knopp, Chair**
 Rep. Rob Patridge, Vice Chair
 Rep. Ralph Brown
 Rep. Betsy Close
 Rep. Mark Hass
 Rep. Elaine Hopson
 Rep. Diane Rosenbaum
 Rep. Tootie Smith
 Rep. Vicki Walker

STAFF PRESENT: **Cara Filsinger, Administrator**
 Annetta Mullins, Administrative Support

MEASURE/ISSUES HEARD: **Adoption of Committee Rules**
 Committee discussion of LC 56 (relating to public employee retirement)

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 1, A		
004	Chair Knopp	Calls meeting to order at 1:45 p.m. and opens a work session for the purpose of adopting committee rules (EXHIBIT A) and discussing LC 56 relating to the Public Employees' Retirement System (PERS).
<u>COMMITTEE RULES</u>		
007	Rep. Patridge	MOTION: Moves to ADOPT the proposed Committee Rules (EXHIBIT A).
008	Chair Knopp	VOTE: 6-0-3 EXCUSED: 3 - Reps. Hass, Hopson, Rosenbaum Hearing no objection, declares the motion CARRIED.
<u>LC 56 – RELATING TO PUBLIC EMPLOYEES' RETIREMENT SYSTEM</u>		
011	Chair Knopp	Explains provisions of LC 56 (EXHIBIT B): <ul style="list-style-type: none">• Creates a joint legislative task force; committee members to be appointed by the President of the Senate and Speaker of the House of Representatives.• Task force would take testimony from the PERS Board and agency on a potential successor system to the PERS system by October 1.• Task Force would make sure the 2003 legislature deals with the PERS issue.

		<ul style="list-style-type: none"> • On July 1, 2003 future hires would not be joining the system as it currently exists. • Benefits of current members of PERS would not be affected.
028	Jim Voytko	Executive Director, PERS. Explains the staff and board will do everything they can to make LC 56 successful. States that LC 56 creates an action forcing event and they are prepared to do whatever they are called on to do to make it successful. Bill is very specific with respect to the policy objectives to be pursued. The legislation is quite clear and direct and they will know how to conduct themselves.
40	Chair Knopp	Asks if it would help for the legislature to be direct. Explains the members would like to know what a defined contribution plan would look like. Asks if it would be helpful to provide an option for PERS to present other options.
051	Voytko	Responds they would appreciate as many opportunities as necessary to present useful ideas that might match policy objectives as much as possible to this group and the entire legislature.
057	Rep. V. Walker	Comments that this system has been around for 50 years and just recently ran into trouble
	Voytko	Responds that questions have been raised since 1993. Offers to create a chronology of the history of concerns.
074	Walker	Asks if the problems with PERS are so insurmountable that the whole system needs to be thrown out.
078	Voytko	Replies that as administrators of the system, their view is that it is up to the legislators, not the agency, to determine whether there is a policy problem. Believes there is complexity in the current system and it is open to litigation. Much time of the board and staff has been spent on determining how the statutes should be executed. Judge Lipscomb overturned the long standing practices of the board; matching of variable earnings is an example. That is not a healthy sign for the stability of the underlying structure of the system. Administrators of the system would appreciate clarification of the instructions from the legislature.
105	Rep. R. Brown	Announces that he is a recipient of PERS at 77 percent of what he made when working. Asks if it is possible to achieve the results by the October 1 date in LC 56.
111	Voytko	Responds that he believes the task is to lay out a successor system. The time needed to lay out a successor system is a function of whether there is a consensus among decision makers as to where they want to go and how quickly they can put the system in place. The simpler the plan, the faster it can be put into place. States their agency has begun some of the work at the behest of the Speaker's task force and they are working with Senators' questions on the present system and a successor system.
137	Rep. Patridge	Comments that a new system should be built from the ground up and there should be no reliance on the prior statutes.
144	Voytko	

		States he did speak to that issue but it is not a recommendation. Explains that the agency's experience with Tier II and grafting a new pension treatment on top of the old statutes is that it only attaches to all the complications and potential contradictions inherent in the current statute. Says there may be sound policy reasons for doing that. States that from his professional point of view, the odds of achieving the objective of simplicity by attaching a third tier to the old statute probably lowers the odds of succeeding on the objective substantially.
159	Rep. Rosenbaum	Asks if there is something that would be magic about approaching this in this special session.
168	Voytko	Comments on the opportunity to develop consensus and put tangible ideas on the table for discussion. The action forcing event will do nothing but add emphasis to PERS' work and to anybody who is worried about the importance of a pension plan being in place at a date certain.
197	Chair Knopp	Asks if Voytko sees anything in LC 56 that would affect current employees' benefits in any way.
199	Voytko	Responds that on first reading he does not see that as an issue. States that the courts in the still unknown umbrella of potentially prospective contract rights may view anything differently. It is not likely to be settled before years of litigation or by the Supreme Court. The bill doesn't seem to affect existing benefits, on its face, but he does not know what the Supreme Court would say.
199	Rep. V. Walker	Comments on article in <u>Eugene Register-Guard</u> . Asks for comments on statements by reporter that "many employers short sheet the system."
238	Steve Delaney	Legislative Liaison, PERS. Comments on collecting payments from employers and states that they have never encountered an employer knowingly withholding contributions.
245	Voytko	Comments on receiving payments and states they shut down their system once a year to verify their records and sometimes must make refunds to employers. States that the refunds would indicate that employers don't "short sheet" the system.
251	Rep. V. Walker	Asks if shutting down the system impedes their ability to administer the system.
	Voytko	Agrees it is an impediment but that does not affect anything programmatic in statute.
265	Rep. V. Walker	Reads second statement <u>Eugene Register-Guard</u> relating to problems with the money match by employers.
301	Voytko	Responds the argument was made by employers for a long time because they felt they were being shut out of an opportunity to match investments with members. The staff also argued that this was an administrative and actuarial imbalance. In early 2000 the board voted to make sure that employer contributions were matched dollar for dollar with those that were elected to be put into variable by the employee. That is about to be overturned by Judge Lipsomb, at least for that year. Last session SB 134 confirmed this asymmetric treatment versus member contributions. PERS will have to deal with the judge's decision

with respect to 1999 and perhaps part of 2000. The judge has not prescribed a remedy. Forward from the passage of SB 134, there will be no mismatch because the legislature has said there shall be none. It was the PERS Board's intent to not have such a mismatch as far back as 1999. The judge feels that during that period it was inappropriate to do asymmetrical treatment and they have to undo it.

- 336 Rep. V. Walker Asks how much the mismatch is contributing to the problems in PERS.
- 338 Voytko Responds it would be a rounding error, not a material component of the current problem.
- 320 Michelle Diester League of Oregon Cities (LOC). States that the LOC has advocated for this concept of a new retirement system for new employees after a date certain in previous sessions. LOC appreciates that LC 56 forces action in the next session. States that while employers have advocated for a successor plan, they have not had the opportunity to come together as a group and define a plan that would meet their objectives of good benefits for employee with stable, sustainable costs for employers. States that a defined contribution is one of several options that this task force should consider. They hope that existing task forces do not cease looking at Tiers I and II. States they are happy to assist the task forces to evaluate the options available. Adds that it is imperative that retirement benefits be available and in place for new employees and hopes the legislature will consider an extension of the timeframes in LC 56 if it becomes necessary.
- 358 Anthony Bieda Representative for Lane County government before the Legislative Assembly. States that the PERS liability Lane County has faced in recent years has grown from single digits in 1996 and they believe the rate will be in the high teens in the next valuation. Over the last four or five years, a couple of million dollars that would otherwise be going toward providing services and programs to the citizens of Lane County has been diverted to cover the growing PERS rates. Lane County has pursued relief in court, in front of the PERS Board, in front of the legislature, and they have gone to the financial markets to take advantage of some of the favorable interest rates to refinance some of their obligations. They believe the nature of the problem affecting PERS has been and will be Tier I and Tier II and no ability to migrate to a successor system. The financial stability and sustainability for Lane County government is integrally linked to their ability to contain and stabilize their retirement benefit costs.

TAPE 2, A

- 001 Maria Keltner Association of Oregon Counties (AOC). States that AOC feels that Tier I and Tier II have problems with conflicting and unclear statutory language and need a successor plan. AOC continues to support a plan that provides good retirement benefits that are stable and sustainable in terms of costs for the public employers and taxpayers. That has been AOC's position for several sessions. States that an interim task force does allow policy issues to be discussed and looked at in terms of what a successor plan should look like. AOC encourages that consideration so action can be taken at the next regular legislative session. AOC

		supports continuing in PERS until a successor plan can be implemented so there is no gap for new members coming into the system.
017	Rep. Patridge	Asks if a bill that stops PERS on a date certain would bring people to the table and put all the cards on the table so they can look at the system as a whole.
029	Keltner	Responds she thinks deadlines cause people to reach agreement.
035	Chair Knopp	Asks if the date should be moved so there will be a system for new hires if the legislature and others cannot come up with a successor plan.
	Keltner	Responds they would not like for there to be no successor system because people would be coming in without a retirement plan. AOC's preference is that there be a successor system for employees at some level because it would be difficult to attract employees if there was no retirement plan for them.
051	Chair Knopp	Asks if discussions of the issue will create a hiring problem for the cities and counties.
	Keltner	Responds that in many cases they are looking at layoffs. The opportunity for hiring varies from entity to entity. Notes that if they have new hires prior to July 1, 2003, the new hires would be under the current system.
070	Brian DeLashmutt	Representing public employee groups including nurses, police officers, corrections, and parole and probation. States he has concerns and reservations about how we move forward. We have the Speaker's task force of employees and employers coming together to find solutions to the successor piece and Tiers I and II. Also, the Governor's task force will be bringing forth experts, the PERS staff and PERS Board who will have recommendations. Third option is one that is an unfair option for the employees. It focuses on Section 4 (EXHIBIT B, page 3) which means people hired after July 1, 2003 would not have a retirement system.
142	Rep. Patridge	Asks DeLashmutt if he would be alarmed to know that he has talked to people within the employee lobby who have said they would not be willing to go to a defined contribution plan, and would not be willing to consider it.
147	DeLashmutt	States he has not heard member organizations saying they will not look at a particular option as an option in itself. LC 56 is very prescriptive and they are not wed to any particular solution.
144	Rep. Patridge	Comments it would appear that negotiations need to be jump started so people will come to the table to deal with this rationally rather than continue to let the system progress and wait it out. Suggests that maybe things need to be jump started and maybe Oregonians' sites should be set on this issue.
170	Rep. T. Smith	Comments there is a possible savings of \$54 million if we address the actuarial tables and whether past legislatures failed to address the situation should not be the guidelines for the future or now. This is a huge problem and we cannot let it go and bankrupt the state. States she hopes the groups that DeLashmutt represents will come to the table and not resist the actions the legislature is taking, but offer solutions.

211	DeLashmutt	Responds that the PERS coalition has been consistently coming forth with suggestions.
	Rep. T. Smith	Asks if the coalition has looked at the issues in LC 56.
	DeLashmutt	Responds they have looked at this bill and every other bill and concept that has been introduced or discussed during this legislative session. They have made suggestions on ways to save the state money and the legislature has not acted on any of those suggestions to this point.
207	Chair Knopp	Comments that DeLashmutt did mention that the coalition has a problem with Section 4. Asks if Section 1 (2) is too narrow, and if it would ease the coalition's mind if "defined contribution" was just one option.
239	DeLashmutt	Reads his response to Section 1 (2): The sentence beginning in line 12 and ending in line 15, "The successor plan shall provide for fixed contributions by public employers and public employees, self-direction of investments and least portability of the benefits under the plan." prescribes a system that may not be the correct one for a solution. Believes it is very prescriptive language and may not be the right solution.
248	Chair Knopp	Asks if it would be more beneficial if the language were broadened to allow for other potential solutions or successor systems.
250	DeLashmutt	Responds that those were his comments about how this bill is crafted. The legislature gets to make the selection. Explains that as long as Section 4 is included they will consider this an unacceptable bill.
264	Chair Knopp	Comments that he knows DeLashmutt does not agree with Section 4. Asks if DeLashmutt prefers that the language be broader on a successor system.
267	DeLashmutt	Responds that if the assumption is for a successor system, then other options for a successor system than the one prescribed in LC 56 need to be looked at.
275	Chair Knopp	States that DeLashmutt's clients do not necessarily think that a successor system is needed and there may be some other answer.
277	DeLashmutt	Responds that he believes a discussion of a successor system has been a discussion that everyone has engaged in both in and outside the building. States that he doesn't know that they have dismissed a successor system as a possibility. They have not come to the conclusion that that is the only solution to the problem. Adds that he will allude to a number of the things he was talking about earlier that have magnified the problem up to this point.
291	Rep. Rosenbaum	Comments that simplicity does not seem to be a characteristic of very many retirement systems, either public or private. Asks if there is sufficient uncertainty and consternation among the people DeLashmutt represents or works with to have a sense of urgency that this needs to be addressed during this special session.
312	DeLashmutt	Responds that the economic health of the state is a concern of employees as well as the employers. Anytime the employees go to the table to negotiate a contract and if money is not there

because it is being eaten by PERS or health care costs or any of the other dynamics, it is a concern and an issue. The employees feel there is a gun to their heads to come to the table and discuss the issues and to be rational and reasonable, and they are doing so. To do this in special session under budget balancing begs the question whether we are looking at a policy decision that is purely driven policy wise or whether the discussion is being driven because there is a need for x amount of dollars to help with the budget rebalancing. It may be a combination of both.

343 Rep. R. Brown

Asks what DeLashmutt would replace Section 4 with.

352 DeLashmutt

States that Section 4 would need to go entirely away. He understands the dynamics of why the bill is drafted the way it is. It attempts to force a solution and if there is no solution, it goes away. States he has seen situations in which this legislature has not been able to get to a solution on issues and if this were an issue next session that they could not get a rational solution on, then that is the dynamics. It would be set in the statute and that is a concern.

381 Chair Knopp

Advises that he will look at broadening the language and talk to the Speaker. Thinks LC 56 would give the committee a framework for debate on a potential successor system. Thinks the task force needs to move forward because there are other issues, including Tier I and Tier II that everyone would like to have a conversation about. States that the committee will continue to look for input from everyone who has an interest. All the members of this committee and task force should give their ideas.

402 Chair Knopp

Adjourns meeting at 2:37 pm.

Submitted By,

Reviewed By,

Annetta Mullins,
Administrative Support

Cara Filsinger,
Administrator

EXHIBIT SUMMARY

A – Rules, Committee, staff, 1 p

B – LC 56, Rep. Knopp, 4 pp