

SENATE COMMITTEE ON GENERAL GOVERNMENT

February 2, 1999 Hearing Room C

3:00 p.m. Tapes 12 - 13

MEMBERS PRESENT: Sen. Verne Duncan, Chair

Sen. Cliff Trow, Vice-Chair

Sen. John Lim

Sen. Marylin Shannon

MEMBER EXCUSED: Sen. Frank Shields

STAFF PRESENT: Marjorie Taylor, Administrator

Patrick Brennan, Administrative Support

MEASURE/ISSUES HEARD: SB 323 Public Hearing

SB 324 Public Hearing

SB 326 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 12, A		
003	Chair Duncan	Calls meeting to order at 3:10 p.m. Opens public hearing on SB 323.
<u>SB 323 PUBLIC HEARING</u>		
016	Fred McDonnal	Director, Public Employees Retirement System (PERS).
020	Steve Delaney	Legislative Liaison, PERS. Testifies on behalf of SB 323 (EXHIBIT A).

		Describes six provisions within SB 323. Discusses suspension of interest accrual in compensation of taxation of benefits related to HB 3349 (1995).
039	Sen. Trow	Asks if PERS has checked with their attorneys regarding the legality of suspending interest accrual in order to prevent future lawsuits.
041	Delaney	Answers that they have and that it is legal. Says that the right of members is to the benefit, as opposed to the interest.
044	Sen. Lim	Asks what happens to benefits accrued by individuals who die after having moved out of state. Asks if those benefits are paid to the family of the member.
049	Delaney	Answers that PERS works with the member's estate to determine the beneficiary, who would then receive the adjusted payment.
052	Chair Duncan	Asks how many members cannot be located for payment of benefits under the provisions of HB 3349.
055	Delaney	Answers that there are approximately 6,000 members who took a refund but have not been located. Clarifies that almost all who were due active or death benefits have been located, and that the 6,000 represents only those due the HB 3349 adjustment.
060	Chair Duncan	Clarifies that the number in question includes those who have left PERS positions and may have forgotten that they were due benefit payments.
062	Delaney	Replies that many of those 6,000 members, who were previously unaccounted for, have now been found.
063	McDonnal	Adds that there were approximately 20,000 members who had refunded out of the system and an additional 80,000 that were retired or were the beneficiaries of the estates of deceased members. Mentions that 94% of those members to whom payments are due have been located.
067	Chair Duncan	Asks what happens to the employer contribution when a member of PERS leaves the system and takes their benefits with them. States that, as he understands it, the employer contribution remains in the system. Asks if the employee can come back at a later date and apply for the employee's contribution with interest.
071	Delaney	Answers that the employee can do so within one year of returning to service or at retirement the employee can make a "refunded time purchase."
078	Chair Duncan	Clarifies the question by offering an example of an individual who leaves after having taken out their benefits. Asks if they could apply to get the employee's benefit back, after having retired.

084	Delaney	Answers that the person would need to come back and work for 10 years within the PERS system to make a purchase of time. Continues to discuss sections of SB 323 in reference to provided testimony.
105	Sen. Trow	Asks what the difference is between Tier 1 and 2 in terms of how benefits are allotted.
107	Delaney	<p>Answers that there are a few differences:</p> <ul style="list-style-type: none"> • Retirement age is 60 in Tier 2, 58 in Tier 1 • Tier 2 has no guarantee of interest, Tier 1 guarantees 8% interest • Vacation pay is not available to Tier 2 as it is in Tier 1 • Workers Compensation payments offset PERS benefits under Tier 2, but do not cause an offset under Tier 1
120	Sen. Trow	Asks for clarification on the offset due to disability payments in Tier 2.
123	Delaney	Answers that Tier 2 does not allow a member to receive more than their last month's salary through a combination of PERS benefits and Workers Compensation payments. Reiterates that Tier 1 does not have such a restriction.
126	Sen. Lim	Asks when Tier 2 was created.
129	Delaney	Answers that Tier 2 was instituted in 1995 legislation, impacting members that gain membership from January 1996 onward.
136	Sen. Trow	Asks if it is possible to switch from Tier 1 to Tier 2 or vice versa.
137	Delaney	Answers that a Tier 1 member who leaves the system and re-enters would do so as a Tier 2 member. Adds that such an individual could "buy" the refunded time to restore their Tier 1 membership.
144	Sen. Lim	Asks what percentage of PERS members belong to Tier 1 and Tier 2, respectively.
148	McDonnal	Answers that approximately 20-25% belong to Tier 2 and the percentage is increasing.
151	Sen. Lim	Says that Tier 2 will continue to grow and will phase out Tier 1 some time in the future.
153	Delaney	Concurs with Sen. Lim's statement. Continues discussion of SB 323 from presented testimony. Discusses the 11 amendments to SB 323 (EXHIBIT B), stating that it deals with electronic deposits of PERS checks, in accordance with the Treasury department. Discusses the contracting of health care services by PERS for provision of health care on behalf of members who have moved on to other states.

191	Chair Duncan	Asks if there is a fiscal impact for the contracting provision.
193	Delaney	Replies that there is no fiscal impact for the provision.
195	Sen. Trow	Asks if the health care providers contracted with by PERS must be licensed by the state in which the member resides.
197	Delaney	Replies that SB 323 requires any health care providers contracted with by PERS to be licensed or certified. Continues discussion of SB 323, in reference to provided testimony.
224	Delaney	Continues discussion of Sections 9-17 of SB 323, in reference to various types of purchases of retirement credit.
259	Sen. Trow	Asks if a former teacher could buy back 13 years of service performed in other states.
263	Delaney	Replies that the limit is 2 years, and that it is only allowable if the individual is not going to be drawing retirement benefits from the other states in which s/he had worked. States that, when creating those regulations, the legislature did not want to give the appearance of "double-dipping."
274	Sen. Trow	Says that he feels that Oregon is sometimes too lenient regarding allowance of buyback time.
282	McDonnal	Discusses buyback bills from previous legislative sessions, mentioning that there was no cost for many of them.
312	Maria Keltner	Local Government Personnel Institute, advocate for the League of Oregon Cities (LOC) and the Association of Oregon Counties (AOC). Testifies on behalf of the LOC and AOC against SB 323, due to the potential addition of costs to local governments, including addition of PERS benefits. States that the notice for new PERS employee benefit rates was recently received. Discusses the impact of the tax relief measure. States that the LOC and AOC are cautious about any change to the system that could have cost impact.
364	Keltner	Offers the examples of Lake and Lane counties as examples of the impact of the tax remedy.
390	Sen. Trow	States that there is no estimated fiscal impact from SB 323 and that it might actually save money through the suspension of interest payments.
395	Keltner	Replies that the change in Section 3 of SB 323 would allow members to count partial years as entire years if it were to the memberis advantage, giving them a higher benefit and raising the cost to the local governments.

411	Sen. Trow	States that opposition by LOC and AOC is surprising, considering that the potential change is so small.
414	Keltner	Explains that until LOC and AOC have a better idea of cost increases, they will oppose any measure with the potential to increase costs. States that the average rate of increase due to the tax remedy was supposed to be approximately 9.4% of salary, but that in actuality the impact to individual cities and counties was "substantially higher."
436	Sen. Trow	States that he understands the problems caused by the tax relief measure, but says that SB 323 would not be compounding the problem.
438	Keltner	Discusses the need for revision of Section 4 in relation to Tier 2 final average salary. Mentions the fact that SB 323 makes it easier to purchase retirement credits, which could potentially increase costs to local governments as well.
TAPE 13, A		
043	Keltner	Mentions possible impact of Section 7 on employer subsidies from out of state health costs. States that the AOC and LOC are in an "uncomfortable position" with regards to potential cost increases to small, inflexible budgets.
054	Sen. Trow	Mentions that AOC and LOC represent many workers who would potentially benefit from SB 323.
056	Keltner	Replies that cities and counties need to look at their budgets and ask themselves if they can afford the potential cost of providing those benefits, which is why AOC and LOC are testifying against passage of SB 323.
060	Sen. Trow	Reiterates that SB 323 has been deemed to have no fiscal impact, but that perhaps there may be a minimal one.
062	Chair Duncan	States that the committee realizes the difficult position that cities and counties are in financially, due to the tax relief legislation.
065	Keltner	Discusses the rules of determining fiscal impact. Says that small cities can be hit hard by small impacts which do not necessarily trigger a fiscal impact to be listed.
073	Chair Duncan	States that it would be interesting to look at the difference that the changes Ms. Keltner is referring to could make on a small city, based upon past PERS member statistics.
080	Keltner	Says that cities and counties do not have access to information regarding the cost of paying PERS benefits to their retirees, or even who those retirees might be.

082	Sen. Trow	States that those items are public information.
083	Keltner	Replies that she has been told that information, such as who has retired and what benefits they have received, is confidential. States that she is sure that PERS could provide the information.
086	Chair Duncan	Asks if PERS would know how much a given individual would collect upon retirement.
096	McDonnal	Says that PERS tracks all employee information.
105	Chair Duncan	Asks if PERS and the legislature are asking too much of local governments with SB 323.
107	McDonnal	Replies that he does not believe so and that PERS supplies the numbers that Ms. Keltner refers to upon request, without Social Security numbers.
111	Chair Duncan	States that such information may be necessary to find out if there is indeed a significant fiscal impact.
118	Sen. Trow	Asks if PERS is required by law to pass on to employers the cost, in the form of rate changes, of any additional benefits.
121	McDonnal	States that PERS does pass such information on to employers and that it did indicate no fiscal impact. States that if there is a higher number of members that take advantage of the changes created by SB 323, then it could increase the costs to employers. States that PERS believes SB 323 to be the completion of statute as it was intended. Adds that the bill could result in lower health care costs to the system.
130	Sen. Shannon	Asks if SB 323 could be considered an unfunded mandate by local governments.
133	McDonnal	Answers that he believes that they would not consider it as such. States that all PERS bills have been examined as potential unfunded mandates, including SB 323.
138	Keltner	States that local governments may consider SB 323 an unfunded mandate, but that she is not sure.
148	Sen. Shannon	Asks if a third tier has been proposed to reduce the cost to employers.
150	McDonnal	Replies that such a proposal has not been made, but that the idea has been discussed.

152	Sen. Shannon	States that she has heard that a third tier is a possible option.
155	Chair Duncan	Closes public hearing on SB 323 and opens a public hearing on SB 324.
<u>SB 324 PUBLIC HEARING</u>		
160	Fred McDonnal	Director, PERS. Testifies in favor of SB 324 (EXHIBIT C). Summarizes written testimony presented to the committee.
167	Sen. Trow	Asks if the PERS Director would receive additional salary for serving as a member of the Oregon Investment Council (OIC).
168	McDonnal	Answers that there would be no additional salary for serving on the OIC. States that the private sector members of the OIC receive per diem compensation. Adds that there will be no additional cost to OIC or PERS through the addition of the PERS director as a voting member of the OIC. Continues summary of testimony. Mentions that the PERS director has, in the past, been a voting member of the OIC.
208	Sen. Trow	Mentions that the addition of the PERS director creates a 6-person council, which creates the potential for a 3 to 3 vote split.
215	McDonnal	Replies that PERS would not be opposed to adding a seventh member, but suggests that doing so would create consequences that were not considered when SB 324 was written. States that he believes that a seven-member OIC would be preferable to a six-member OIC.
237	Rollie Wisbrock	Chief of Staff, Oregon State Treasury. Testifies on behalf of the Oregon State Treasury against SB 324. States that the Treasury has no problem with the PERS director being a voting member of the OIC, but that they object to having a six-member council. States that a five-member OIC has worked well in the past. States that the Treasury would not be opposed to replacing the existing PERS position on the OIC with the PERS director. Adds that the Treasury would oppose a seven-member council.
267	Sen. Trow	Asks if the Treasurer has always been one of the five voting members of the OIC.
268	Wisbrock	Replies that it has always been the case. Mentions that the council was established in 1967 under then-Treasurer Bob Straub.
272	Sen. Shannon	Asks McDonnal and Wisbrock why the PERS director was previously taken off of the OIC.
278	McDonnal	Replies that he is unsure as to why the PERS director was removed as a voting member.

282	Wisbrock	Adds that he does not know either, but that it was done in 1987.
291	Sen. Trow	Asks Wisbrock why the Treasury would oppose having a seven-member OIC.
295	Wisbrock	Replies that the Treasury has no "fundamental problem" with a seven-member council, but that a five-member council has worked very well in the past, while a seven-member council may not.
300	Sen. Trow	Asks McDonnal why he feels that the PERS director should be a voting member and why he feels that a seven-member OIC would be preferable to five.
304	McDonnal	Answers that the Director would represent the interests of the 250,000 PERS members.
313	Sen. Trow	Asks why the PERS Director would better represent of the needs of PERS members than any of the other individuals on the council.
315	McDonnal	Replies that the PERS member on the council represents PERS members, while the private sector members of the OIC do not represent PERS members directly. Adds that the private sector members add a valuable balance. States that he does not prefer seven members to five, but that he would prefer either to six members. States that he would like to discuss, with the PERS board, the possibility of exchanging the PERS member of OIC with the PERS director.
343	Chair Duncan	Asks Wisbrock what the structure of investment councils is in other states.
350	Wisbrock	Says that, in some states, the Treasurer is the solely responsible for investment, while others have investment boards of various sizes. States that there are many different models.
366	Chair Duncan	Closes public hearing on SB 324 and opens a public hearing on SB 326.
<u>SB 326 PUBLIC HEARING</u>		
390	Fred McDonnal	Director, PERS. Offers testimony in support of SB 326 (EXHIBIT D). States that the bill would add two members to the Deferred Compensation Advisory Committee (DCAC).
TAPE 12, B		
018	Chair Duncan	Asks what the advantages are to a seven-member committee.
020	McDonnal	Replies that a seven member committee allows for adequate representation of both state employees and local governments. Adds that if local governments

		continue to expand in the program that there may be more members added in the future.
024	Sen. Trow	Asks if any of the members are reimbursed for expenses.
026	McDonnal	Answers that those local government employers attending meetings of the DCAC would be reimbursed for their per diem expenses.
032	Sen. Trow	Asks if there would only be a minimal cost to local governments.
034	McDonnal	Replies that the cost would be minimal. Adds that PERS would only compensate local governments for the expenses of their representatives at the DCAC meetings.
045	Delaney	Adds that Legislative Counsel removed the wording in SB 326 that specified that the additional members would be representing local governments, because the five current members are not specified as representing any particular interest.
055	Maria Keltner	Local Government Personnel Institute. States that AOC and LOC would not be opposed to the additional cost that might arise due to SB 326, since those costs would be at the behest of local governments choosing to send representatives to DCAC meetings. Says that such a cost increase is very different than a rate of payment increase, such as that which was discussed during the previous work session on SB 323. States that AOC and LOC do not oppose SB 326.
065	Chair Duncan	Closes the public hearing on SB 326 and opens a work session on SB 326.
<u>SB 326 WORK SESSION</u>		
070	Sen. Trow	MOTION: Moves SB 326 to the floor with a DO PASS recommendation.
072		VOTE: 3-0-2 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 2 - Lim, Shields
	Chair Duncan	The motion CARRIES. SEN. DUNCAN will lead discussion on the floor.

082	Chair Duncan	Closes work session on SB 326. States that SB 323 and SB 324 will be analyzed for fiscal impact before further action is taken.
090	Chair Duncan	Adjourns meeting at 4:12 p.m.

Submitted By, Reviewed By,

Patrick Brennan, Marjorie Taylor,
Administrative Support Administrator

EXHIBIT SUMMARY

A ñ SB 323, Testimony, Fred McDonnal, 2 pp.

B ñ SB 323, -1 Amendments, Staff, 1 p.

C ñ SB 324, Testimony, Fred McDonnal, 1 p.

D ñ SB 326, Testimony, Fred McDonnal, 1 p.