

presentation.

CHAIR TIERNAN: Clarifies the testimony and that comments should focus on a second tier system, the nature of the two proposed bills, defined benefits v. defined contribution, and which bill would be easier to implement/administer.

031 MARK JOHNSON, principal with Milliman & Robertson. Submits (EXHIBIT A).

Provides background about contact with PERS for the purpose of providing advice to the Retirement Board, specifically focusing on the funding of the retirement system. Presents testimony with the use of an overhead projector about the difference between defined contribution and defined benefit.

070 MR. JOHNSON: Continues presentation. Explains the two different types of retirement programs (page 2).

116 REP. MARKHAM: Do you agree with the testimony yesterday? Are you furnishing additional information about that testimony?

MR. JOHNSON: Agrees with the testimony; however, will provide more depth.

139 MR. JOHNSON: Continues presentation. Illustrates an hypothetical case (page 3). Refers to accrued benefit graph (page 4).

REP. JOHNSTON: When we hit 100% at the 30-year mark, then does that defined benefit remain static?

MR. JOHNSON: Explains this would be the benefit the person starts to receive and there is an automatic cost of living increase in the system (i.e., if the CPI goes up 2%, they get 2% a year).

186 MR. JOHNSON: Continues presentation. Explains the value of the benefit as it increases (page 5).

209 MR. JOHNSON: Describes the defined contribution plan and the accumulation with the same amount of money (page 6). Explains the common way to explain the difference between the two plans is how the moneys accumulate.

227 CHAIR TIERNAN: Asks for a description of the difference in cost for the total contribution made in order to sustain both plans.

279 MR. JOHNSON: Continues presentation. Explains that more benefits are paid to short-term people in a defined contribution plan and more benefits are paid to career employees at retirement in a defined benefit plan (page 7).

289 CHAIR TIERNAN: Says that the least cost to the state is a defined benefit, but it is the greatest return to employees who retire with full service.

MR. JOHNSON: Exactly. The emphasis in defined contribution plans is more on short-term mobility, because the benefit paid out earlier on.

302 REP. JOHNSTON: Doesn't that depend to some extent upon the interest

rate at the end and can't you assume an interest rate in defined contributions that will exceed the defined benefit at the end?

MR. JOHNSON: Yes, but the cost for the defined benefit plan would come down. Says the amount of money that is going in for the defined benefit plan is that the members and taxpayers are putting in money together with the Investment Council to get in investments.

317 REP. JOHNSTON: Is the cost ratio reduced evenly?

MR. JOHNSON: No. Explains that if it is strictly a defined benefit approach, there is no defined contribution element (i.e., money match). If

the Fund earns more than 8%, it doesn't increase the benefit, it reduces employer contributions. When the yearly earnings do not meet the 8%, the employer and taxpayer contributions will go up.

REP. JOHNSTON: Is it a policy choice as to who bears the burden?

MR. JOHNSON: Yes.

CHAIR TIERNAN: Requests a brief comment about the risk factors involved between defined benefit and defined contribution.

339 CHAIR TIERNAN leaves meeting -- shifts Chair responsibilities to REP. MARKHAM.

350 MR. JOHNSON: Discusses the risks of a DB v. DC (page 8). Explains that the risk in a defined benefit plan is borne by the employer and, in a defined contribution plan, the risk would be removed from the taxpayer and shifted to the members (i.e., the members are not going to know what is the benefit).

402 REP. HAYDEN: In a defined contribution plan, when the member retires, the earnings are high, and the member retires with a "big pot of money, is that pot frozen when they retire?"

MR. JOHNSON: Explains that in a pure defined contributed plan, the answer is "No."

TAPE 53, A

002 REP. MARKHAM: Is that comparable to an annuity?

MR. JOHNSON: Yes, the system is annuitizing the benefits (i.e., acting like an insurance carrier).

018 MR. JOHNSON: Continues presentation. Provides an example of the formula that is proposed in HB 2558 (page 9).

039 MR. JOHNSON: Continues presentation. Says the Retirement Board's goal includes Social Security and Social Security is biased toward lower paid individuals.

087 MR. JOHNSON: Continues presentation. Addresses the defined contribution plans in favor in the private sector (Page 10).

141 MR. JOHNSON: Continues presentation. Explains about demographic trends

(page 11).

CHAIR TIERNAN: Returns at 1:45 pm and resumes Chair responsibility.

157 MR. JOHNSON: Continues presentation. Points out there is a shorter period of work to accumulate money needed/distributed over a longer period of retirement (i.e., another risk issue on accumulating enough money in a defined contribution plan to pay for adequate retirement).

170 MR. JOHNSON: Continues presentation. Explains HB 2476, the defined contribution proposal (page 12).

MR. JOHNSON: Continues presentation. Submits letter dated February 22, 1995 (EXHIBIT B) and refers to the three issues on page 2.

222 REP. HAYDEN: If there is no employee health care, would they purchase their own?

COUNSEL MOORE: They would purchase their own health care.

MR. JOHNSON: Continues presentation. Explains the current subsidy program for health care. Suggests reviews as listed on page 13.

253 MR. JOHNSON: Continues presentation. Explains about administrative type changes.

279 MR. JOHNSON: Continues presentation. Suggests not adopting/implementing a second tier until IRS says it is a good plan. Points out there are federal requirements for pension plans, including federal requirements for military service credit.

FRED MCDONNAL: Comments about legal reviews. Suggests avoiding, in a two-tiered system, that one member is at the same time in two tiers (i.e., make absolutely sure there is not dual membership).

341 CHAIR TIERNAN: Illustrates example of an employee leaving state service after three years, keeps money in the plan and then returns 10 years later. Do you have any opinion when that employee returns whether there are any legal consequences on whether he is on a second tier v. a first tier? Can that employee roll over the first tier into the second tier?

367 MR. JOHNSON: Explains that if an employee has never vested in PERS and leaves state service, the employee must take the money.

CHAIR TIERNAN: What happens if the period of state service is six years?

MR. JOHNSON: If the employee leaves the money in the system and that employee returns, suggests the employee remain in the first tier or provide a choice to be in the second tier. Explains the problem is how to convert time from the first tier, basically a defined benefits plan, into an arrangement of defined contribution plan.

377 CHAIR TIERNAN: Why can't the employee be started all over again?

MR. JOHNSON: Explains the benefit is calculated now by virtue of computerized screens -- there is very little manual labor involved. Points out that the computerization involved to go to a system where one person

has two different types of benefits would be a lot of work for a very few number of people and would not be cost effective. Suggests that if there is no rule whereby everybody is either in one plan or the other, a rehired person should be given a choice, otherwise the employee will be "cashing out" at tier one.

414 MR. JOHNSON: Mentions there is no differentiation of a benefit for police and fire or judges. Explains that in the current system there is a history that police and fire generally have better benefits, because they will retire earlier. Judges, historically, have had much higher benefits than other state employees or municipal employees, because of the objective of attracting people from some other situation to run for the judgeship; however this particular program treats judges the same as everyone else.

TAPE 52, B

002 MR. JOHNSON: Says there is no differentiation between medical, fire, and judges. This program treats judges the same.

CHAIR TIERNAN: Is there a problem having a different tier for judges?

015 MR. JOHNSON: Describes a potential problem with federal discrimination rules applying to public plans. Suggests that in two years it may be wise to keep the current judge program with the same benefits as a separate system. Clarifies there is a discrimination in favor of higher paid employees and that is a violation of Federal Law.

REP STROBECK: Doesn't HB 2476 address the police and fire differential at all?

MR. JOHNSON: Responds that HB 2476 doesn't call for a differential. HB 2476 provides for an employer contribution of 6%. The proposed bill doesn't provide that if it is for police and fire that it is six plus something or that of it is a judge, it is six plus something else.

037 CHAIR TIERNAN: Are there any recommended differentiations to put in the proposed bill for judges to compel them to leave private practice?

MR. JOHNSON: Responds that it is something to consider.

REP STROBECK: Requests that the same contribution/formula for police and fire to equal the benefit differential discussed also be included.

052 MR. JOHNSON: Explains and compares the cost of the two bills with the current system (page 14).

083 MR. JOHNSON: Continues presentation. Says that the average employer cost for a new member in PERS is about 6.7% of pay and it varies by employer (e.g., schools are 7.4% of pay instead of 6.7%). Explains the difference is that school employees tend to retire earlier, tend to have less turnover, and have a different career pattern -- teachers tend to cost more.

CHAIR TIERNAN: What's the disability election provision and does it now exist?

110 MR. JOHNSON: Says there is a disability benefit under PERS currently; however, HB 2476 does not provide a disability benefit other than the

account. Currently PERS pays 50% of the final average pay for life, because of disability.

CHAIR TIERNAN: Asks if that is in addition to workers' compensation (i.e., receiving a permanent disability sum as well as permanent retirement sum)?

MR. JOHNSON: Responds there is no coordination with social security or workers' compensation.

142 CHAIR TIERNAN: Requests an explanation regarding the injured firefighter who receives a permanent disability, is now able to collect a retirement equal to 50% of the final average salary, and is that an issue that can be addressed under these bills?

MR. JOHNSON: Says the PERS statute is fulfilling two roles for employees (i.e., providing long-term disability protection for salary replacement or a lifetime retirement benefit).

180 MR. JOHNSON: Continues presentation. Explains emerging tier cost (pages 15 and 16). Submits letter dated February 22, 1995 (EXHIBIT C).

240 MR. JOHNSON: Continues presentation. Explains retirement, death and disability benefits under HB 2558 (page 17).

MR. JOHNSON: Continues presentation. Explains other benefits under HB 2558 (page 18) and recommended reviews (page 19). Points out that by eliminating the disability provision for general service people it appears that inadvertently the earnings test for disability was eliminated.

278 MR. JOHNSON: Continues presentation. Explains employer costs for new members under HB _2558 (page 20).

REP. JOHNSTON: Asks about the reason there is no recapture.

MR. JOHNSON: Says there is no recapture, because it is a defined benefit plan.

289 MR. JOHNSON: Continues presentation. Explains emerging tier cost and funding requirements (pages 21 and 22).

CHAIR TIERNAN: Calls a break at 2:25 pm.

310 CHAIR TIERNAN: Reconvenes the meeting at 2:40 pm.

CHAIR TIERNAN: Asks which plan is the better benefit plan for a long-term new hire?

345 MR. JOHNSON: Says the defined benefit approach is superior, because it assures the employee of predictable pension at the time of hire.

CHAIR TIERNAN: Does the February 22 letter compare and contrast the two proposals?

MR. JOHNSON: Responds that it does not compare and contrast in terms of the benefits; it compares and contrasts in terms of the cost.

370 REP. JOHNSTON: Refers to the analysis of both bills as showing the employer paying less than the 6% the employee is to pay. Is that a normal feature of retirement plans?

MR. JOHNSON: Says that is "very unusual." Clarifies that typically employers pay at least half of the pension and that in the private sector, almost universally, employers pay the entire amount for a defined benefit plan and that in a defined contribution plan, there is typically a sharing of the cost. Additionally, "In the public sector . . . I can't think of any . . . where the employees actually pay more."

CHAIR TIERNAN: Points out a wage and benefit study conducted by the Governor's Office that said "of the Oregon's employers, the employer contribution average was 4.4%."

REP. JOHNSTON: Suggests that "Without unduly harming the taxpayer . . . I think we should do what we can to get those niggardly plans up to speed."

399 REP STROBECK: Refers to testimony that 90% of the new private pension plans are defined contributions plans. Asks if that is correct and is that because of the company's efforts to holding down costs over the long term?

MR. JOHNSON: Yes. Says that it is more attractive from an employer's standpoint and, in terms of risk, that profit sharing plans are almost universally the first plan to be adopted.

TAPE 53, B

020 REP. HAYDEN: Refers to testimony "that the best of all worlds for the career employee, not the short term . . . and the state, would be the defined benefit plan."

MR. JOHNSON: Says "Clearly best for the career employee if our long-term assumptions emerge as we predict, and the most powerful of that is the investment return." Says if the Fund earns an average of 8%, the answer is also "Yes." Points out the risk to the state and other employers is clearly more prevalent in a defined benefit plan. Comments about the philosophy of where the risk is (i.e., the employers or the members).

REP. MARKHAM: Asks whether, in the contribution benefit plan and the market is down when the person retires, does the state employee today have the ability to not retire?

MR. JOHNSON: Responds that a person cannot be forced to retire due to Federal Law. Explains that an employee who retires and desires to draw a larger pension does not have to draw out the retirement.

064 MARJORIE LOWE, Department of Administrative Services, Office of Fiscal Policy Analysis: Conveys Governor Kitzaber's perspective about retirement policy changes and the relationship with other equally important compensation issues. Points out that Governor Kitzaber takes a broad-based approach to the issue. Submits (EXHIBIT D).

071 MS. LOWE: Continues testifying from prepared statement. Says that public employee compensation issues encompass three important elements (i.e., retirement reform, collective bargaining changes and salary increases for employees below market) and the overriding concern that compensation be viewed as a "whole." States that the Governor is "not willing to propose or to support any changes to PERS outside the context of this broader discussion with the legislative leadership."

090 MS. LOWE: Continues testifying. Reiterates that the Governor's chief

concern is "Compensation must be viewed as a whole. The Governor would not support any changes made to one aspect of compensation without considering the entire matter."

095 CHAIR TIERNAN: Asks if the Governor's proposal continues to support a two tiered program?

MS. LOWE: Says the Governor's budget document lays out a plan for retirement reforms in conjunction with dealing with the other issues.

CHAIR TIERNAN: Does the Governor realize the second tier does not affect current employees?

MS. LOWE: Responds that the Governor's proposal would not have affected existing employees -- only new hires.

CHAIR TIERNAN: Does the Governor understand that the wage proposals affect existing employees, but this only affects future employees?

MS. LOWE: Refers to the previous Task Force's report that when the system was viewed as a whole it was recognized that existing employees in a wide variety of types of employment have a lot of other issues that need to be dealt with and the Governor wants to approach all three issues in a unified way, not one at a time.

114 MS. LOWE: Continues responding. Says that all employees would benefit from the change in compensation in the pay plan.

127 CHAIR TIERNAN: Does the Governor agree that a different tier system is needed?

MS. LOWE: Responds that the Governor's Task Force's conclusion was that a variety of things needed to be done related to employee compensation.

181 CHAIR TIERNAN: Announces the appointment of a special work group/task force to evaluate both two bills and to come up with a recommended tier system to implement. Explains that the work group is charged with the responsibility of reaching a consensus. Reps. Bryan Johnston, Grisham and Strobeck to represent the Committee. Other members to include a representative from the Governor's Task Force, the House's Task Force, Bill Cross (police), Bill Delashmutt (public sector unions) and Fred McDonnal (serve as a resource). The timeline established is two weeks from the last full committee meeting to reach a consensus or no consensus about the second tier.

236 CHAIR TIERNAN: Declares the meeting adjourned at 3:05 pm.

Submitted by, Reviewed by,

Kay C. Shaw Gregory G. Moore
Committee Assistant Committee Counsel

EXHIBIT SUMMARY:

A - Prepared Testimony on Oregon Public Employes Retirement System -- Mark Johnson - 22 pages

B - Letter dated February 22, 1995 on HB 2476 -- Mark Johnson -- 5 pages

C - Letter dated February 22, 1995 on HB 2558 -- Mark Johnson -- 5 pages

D - Prepared Testimony -- Marjorie Lowe -- 1 page