

March 15, 1991 Hearing Room 50 03:00 p.m. Tapes 36 - 27 MEMBERS
PRESENT: SEN. GRATTAN KERANS, CHAIR SEN. LARRY HILL, VICE-CHAIR
SEN. PETER BROCKMAN SEN. BOB KINTIGH SEN. BOB SHOEMAKER

These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

WITNESSES: SHERYL WILSON, DIRECTOR, PUBLIC EMPLOYMENT RETIREMENT SYSTEM
MICHAEL B. MARSH, APPOINTEE, PUBLIC EMPLOYEES' RETIREMENT BOARD

EXECUTIVE APPOINTMENT - PUBLIC EMPLOYES' RETIREMENT BOARD - PUBLIC
HEARING

006 MICHAEL B. MARSH, APPOINTEE, PUBLIC EMPLOYEES' RETIREMENT BOARD
(EXHIBIT A) Details Exhibit A. CHAIR KERANS: Could you outline for me,
what you see your responsibilities on the board will be other than the
statutory responsibilities of the board. Senate Commi~ on Lebor March
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073 CHAIR KERANS: Are we taking into effect about whether there has been a shift in philosophy regarding the governance of this program from a more conservative to a more liberal position? MARSH: I would consider myself to be relatively conservative with regard to the fund balance so that we don't try to nick into that too much. I would rather have a 30 year perspective than a month by month perspective about how our investments are doing.

EXECUTIVE APPOINTMENT - PUBLIC EMPLOYEES' RETIREMENT BOARD - WORK SESSION

VOTE: Hearing no objection, the motion carries.

TAPE 36, SIDE A OVERVIEW OF THE PUBLIC EMPLOYEES RETIREMENT SYSTEM -
PUBLIC HEARING WITNESS: SHERYL WILSON, DIRECTOR, PUBLIC EMPLOYMENT

RETIREMENT SYSTEM

136 SHERYL WILSON, DIRECTOR, PUBLIC EMPLOYMENT RETIREMENT SYSTEM (EXHIBIT B) > She gives a brief synopsis of her background: · Appointed Director of PERS in 1989. · 25 years experience in the public retirement area, working for the State of Washington and the University of Washington in various capacities. > Details Exhibit B. 218 CHAIR KERANS: How many public employees are there who are affected by the "equal to or better than" system? WILSON: This is kind of like counting in the absence, so we don't know exactly how many there are. We do know how many Police/Fire systems there are because we've just been through an "equal to or better than" test, and the only system that did pass was the Portland Police and Fire System, which has gone through some fairly massive revisions of late. There are 19 . These minutes contain materials which paraphrase and/or restate elements during this session. Only text enclosed in quotation marks represent a speaker's exact words. For complete contents of the proceedings, please refer to the taper. .. Senate Committee on Labor March 15, 1991 - PaBe 3

additional small police and/or fire systems throughout the state. There are a few local systems which work through an insurance carrier and provide a small local benefit. Those are one by one integrating into our system. The law provides that they can come in, and they are. We have several every year that ask to come into the system. > They can come in from the day of entry, and then what happened before is a matter of contract between them and their employees. There is service credit from the date of entry. In addition they can negotiate an agreement with us that allows us to pick up their prior service, but that they do have to pay for it fully. > Continues to detail Exhibit B.

278 SENATOR HILL: What about the ratio between contributing members and retired members? That is changing. WILSON: That is changing. There is a curve in the back of the testimony, and it is one of our challenges to the future. > Continues to detail Exhibit B. 387 SENATOR SHOEMAKER: I suppose one Measure 5 savings that could be effected would be to freeze employer contributions, or to reduce them so that then you would have to allocate less to state agencies which means you could do other things. Is that on our plate at all? CHAIR KERANS: I don't know the answer to that question, but I suspect that it may well come up in the salary sub-committee of the Ways and Means Committee, and the final activity of the PERS administration legislation.

WILSON: That is an issue that is kind of being talked about without a particular focus at this time. There is a good deal of misinformation going on about the condition of the fund and what the rate-setting process is. Because of the good investment earnings of the fund, and because the board voted to increase the interest earning assumption, which is one of the underpinnings of the actuarial evaluation, you will be seeing a reduction in the employer contribution rate in July of 1992. In addition, the increases which were scheduled to take place in January of 1991 and 1992 have been canceled. The result has been an additional 10 and one-half general fund dollars on the table for expenditure during this biennium, and approximately \$22 million, all funds.

SENATOR SHOEMAKER: What about reduction of employee contributions, and reducing their compensation equivalently, thus freeing up money for other things? Has that been discussed at all?

WILSON: I have not heard that discussed in quite that way. What I have heard is some concern from tax payer organizations about the fact that

in general, employee contributions are actually contributed by the employer. The level of employee contribution is fixed by amount in statute at 6% of salary, unlike the employer contribution, which is restated each time an actuarial evaluation is done. It's important to remember that this is not a whimsical thing - there is a real liability created by the retirement system for the people that are here and the people that will come, and the money that goes in is calculated to pay on a current basis for the obligations that are being created on a current basis, in contrast to the Social Security system which is on a "pay as you go" basis. If contributions are lowered in any way, artificially - legislative fiat or something outside the actuarial process - that it moves the obligation ahead, and if you pay later,

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you pay more because you have lost the opportunity in terms of interest earnings that have been accumulating.

TAPE 37, SIDE A 001 SHERYL WILSON, CONTINUED > Continues to detail Exhibit B. 038 SENATOR SHOEMAKER: I suppose the argument would be that until we get the revenue situation straightened out, some things that we could safely put off, recovering them later, might be considered, and I think we would have to expect that we would recover that later by having greater employer/employee contributions somewhere down the road than we would have had, and that the fund is solvent so that we know we're not going to be in trouble for ten years. I can see a fairly strong argument for pushing this down the road a ways and allowing us then to meet some of the other more pressing needs that we have this session and may have the next session. 049 WILSON: > Continues to detail Exhibit B. 121 CHAIR KERANS: Tell me about investment service charge. To whom is that paid?

WILSON: The investment service charge is levied by the State Treasury, and it is the cost of investments - buying and selling, commissions, etc. That is the way that works. > Continues to detail Exhibit B. 198 CHAIR KERANS: What stands behind the long series of actuarial mix-guesses, or loss of investment earnings, or exceptionally large amounts of withdrawals of retirement, which stands behind the fund?

WILSON: The fund is underwritten by the State of Oregon. The State of Oregon is the people through their taxpayer dollars. It's a trust fund, so it has to subscribe to trust laws to keep its qualifications.

SENATOR HILL: My thought was that the State has property tax authority under the constitution. CHAIR KERANS: That is for the veteran home loan. This is for straight taxpayer dollars. We would have to raise taxes to put into this in order to maintain its health in the event of a system dysfunction.

WILSON: That is correct. > Continues to detail Exhibit B.

326 SENATOR SHOEMAKER: Do you function as a self-insured agency?

WILSON: No, we do not.

SENATOR SHOEMAKER: Does PERS have any interest in moving in that

direction?

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WILSON: I think we might. I cannot speak for the three member sub-committee of the board that oversees this function, but I think we might. I believe that we are a little behind the curve in terms of the sophistication of health plan administration, and I believe it's a little early for us to look at that. > Continues to detail Exhibit B.
TAPE 36, SIDE B

001 SHERYL WILSON, CONTINUED > Continues to detail Exhibit B.
239 CHAIR KERANS: Why does Ballot Measure 5 impact the pre-retirement education program? WILSON: It's a new program. CHAIR KERANS: Is the cost to be shared with the local government, employers, or to be charged back against them that would otherwise keep their contribution levels from coming down? WILSON: There are many ways in which you can put together a pre-retirement program. We inherited the responsibility from the Executive Department for a modest program for state employees. It is totally self-funded by the State employee. I argue that provides - it's about \$60 per person - and I think there are a lot of employees who see that \$60 as a barrier, and therefore not getting the kind of information that a comprehensive pre-retirement program would provide. > It talks about the psych-social impact, free time, social security, individual income responsibilities, legal information about taxes, etc. It is a 12 hour program. > The plan was to subsidize it, but now we are going to continue it with the employee bearing the cost. 3 11 > Continues to detail Exhibit B.

463 The meeting was adjourned at 4:38 p.m.

Submitted by: Reviewed by: Roberta White Annette Talbott
Assistant Committee Counsel

EXHIBIT LOG: A - Testimony on Executive Appointment - Michael B. Marsh - 12 pages B - Overview of PERS - Sheryl Wilson - 22 pages - These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.