

**75th OREGON LEGISLATIVE ASSEMBLY – 2009 Regular Session
BUDGET REPORT AND MEASURE SUMMARY**

MEASURE: SB 897-B

JOINT COMMITTEE ON WAYS AND MEANS

**Carrier – House: Rep. Nathanson
Carrier – Senate: Sen. Winters**

Action: Do Pass the A-Engrossed Measure as Amended and Be Printed B-Engrossed

Vote: 20 – 0 – 2

House – Yeas: Buckley, C. Edwards, D. Edwards, Garrard, Gilman, Jenson, Kotek, Nathanson, Richardson, Shields, G. Smith

– Nays:

– Exc: Galizio

Senate – Yeas: Bates, Carter, Girod, Johnson, Monroe, Nelson, Verger, Walker, Whitsett

– Nays:

– Exc: Winters

Prepared By: Bill McGee, Department of Administrative Services

Reviewed By: Laurie Byerly, Legislative Fiscal Office

Meeting Date: June 22, 2009

Agency

Public Employees Retirement System

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Biennium

2009-11

Budget Summary*

	2007-09 Legislatively Approved Budget (1)	2009-11 Essential Budget Level	2009-11 Committee Recommendation	Committee Change from 2007-09 Leg. Approved \$\$ Change	% Change
Other Funds	\$ 0	\$ 0	\$ 500,000	\$ 500,000	100%

(1) Includes adjustments through the December 2008 meeting of the Emergency Board

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The operating budget for the Public Employees Retirement System (PERS), including expenditures under this bill, is funded with investment earnings from the PERS Trust Fund. Net earnings on the Trust Fund are distributed to employer, employee, and reserve accounts as directed by statute and board crediting decisions.

Summary of General Government Subcommittee Action

Senate Bill 897 includes four modifications to statutes affecting PERS.

Validation of Retirement Benefits

Senate Bill 897 allows members of Tier One, Tier Two, and the Oregon Public Service Retirement Program (OPSRP) who are within two years of their earliest retirement date to request that PERS verify their retirement data. Data elements to be verified are creditable service time, average final salary, account balance, and unused sick leave. Members have 60 days to dispute the accuracy of the data provided to them by PERS. At retirement, benefits must be based on values for each of these data elements that are no less than the amounts provided in the pre-retirement verification. Creditable service and average salary may be increased based on the member’s employment history between the earlier verification and actual retirement. Account balances and sick leave may be adjusted due to earnings and leave accrual/usage since verification. Overpayments due to data errors at the time of verification may not be recovered from members unless recovery is required to maintain the federal tax exempt status of the retirement plan, unless members were aware that the verified data was in error and did not dispute the error. Members are entitled to one data verification without charge; additional verifications may be requested for a fee set by the Board. These provisions take effect on July 1, 2011; verification of sick leave data is delayed until July 1, 2012.

Currently, members’ data are verified at retirement. Under Senate Bill 897, PERS will verify data up to two years prior to retirement based on employment history and account balances at the time of the member’s request, again if the member requests additional verifications at his or her expense, and finally at the time of retirement, to capture changes since the initial verification was completed. The requirement to provide early

verifications, particularly in light of anticipated growth in the number of retirements, is expected to significantly increase PERS workload in the 2011-13 biennium. PERS estimates that 85,000 members will be eligible for pre-retirement data verification.

To prepare for the increased workload, the Subcommittee approved a \$500,000 Other Funds expenditure limitation increase in the Services and Supplies Information Technology Professional Services budget. This will allow PERS to enhance its jClarety system and add functionality needed for the data clarification process. The additional programming is needed due to the requirement that data elements cannot be changed after their verification; this feature was not part of the system's original design specifications.

The Subcommittee discussed the cost of replacing the agency's legacy information system with jClarety and adopted the budget note below. The Subcommittee's expectation is for the agency to complete its report back to the Legislature prior to the rescheduling of expenditure limitation.

Budget Note

By March 1, 2010, the Public Employees Retirement System will report back to the Legislature on its work plan for and progress toward implementing the retirement data verification program required under Senate Bill 897. The work plan should include objectives, timelines, and deliverables for both business processes and system changes. The plan should also evaluate the agency's ability to handle the program with existing resources, and if resources are found to be inadequate, identify specific drivers and program requirements that justify a request for additional staffing or other resource needs.

In addition, the Department of Administrative Services is requested to unschedule \$312,500 Other Funds expenditure limitation from the \$500,000 authorized by this bill for system redesign. Depending on timing and interim activities, the report could be received by the Joint Committee on Ways and Means or the Emergency Board.

Membership of the PERS Board

The bill modifies eligibility for one of the five members of the PERS Board. The position reserved for a public employee in an appropriate bargaining unit may be filled either with a public employee or a PERS member who is retired from a position in an appropriate bargaining unit. The size of the board is kept at five members, its size since it was reduced from 12 members in 2003. One of the other four members must be a management employee of the state or an elected official of a participating public employer other than the state. The remaining three positions must have experience in business management, pension management, or investing, and not be a PERS member. This provision has no fiscal impact on the agency.

Participation of OPSRP Members in PERS Health Insurance Plans

Senate Bill 897 would allow retired members of the OPSRP, their spouses, and eligible dependents to participate, at their own expense, in the PERS Health Insurance Program. Currently, only Tier One and Tier Two retirees and their families are eligible to participate. Premiums are generally deducted from monthly benefit payments. This change would require modification of the jClarety system to accommodate the premium reductions in monthly benefits. The costs are expected to be minimal and will be absorbed within the PERS budget.

Retirement Payment for Retroactive Payments

The bill requires that members receive retirement credit for certain retroactive salary payments, generally in response to court orders, administrative orders, settlement agreements, and other documents resolving disputes between employers and employees. Often, these resolutions result in payment of wages for time the employee was absent from work. Senate Bill 897 directs that employees receiving back-pay also receive the same retirement credit as if he or she had been at work. This provision is anticipated to have a minimal fiscal impact that will be absorbed within the PERS budget.