

Below is a summarized version of the Q&A session I had with 5 PERS officials – Jim Voytko, Dale Orr, Steve Rodeman, Marsha Bacon, and Christina Shearer on Friday May 30, 2003. While I have asked all and each for clarification on several of the “answers” posted in here, I have received no confirmation or clarification as of the end of business on June 3, 2003. I’m reasonably confident that this is an accurate portrayal of the areas we discussed on May 30, 2003; however, I am still a bit unclear on the very last part of A1, and while I believe that the last sentence of A7 is correct, we discussed this a bit further in the context of the “Final Note” and I don’t exactly recall where we left it. It is also the case that the “final note” should be read carefully as these and other issues still remain under discussion and could have bearing on both the answers given and final implementation of virtually any of the topics discussed.

PERS Questions:

Q1: How will the purchase of “waiting time”, “refunded time”, and “service credits” be handled for retirement applications and purchases made **after** June 30, 2003?

A1: See Steve Delaney’s testimony before Ways & Means on April 24th (posted on my web site as Document #1 for the same date). Nothing in HB 2003 or HB 2004 directly concerns such purchases. The time can still be purchased and used to determine eligibility for retirement, however the funds used to purchase the time may or may not be available to the member depending on a number of factors. If the purchase occurs between July 1, 2003 and December 31, 2003, the funds will be added to the employee’s account balance, but will not figure in the balance used to compute the “lookback” benefit as of 6/30/03. As a result, the purchase cost will not increase the benefit the member receives under the “lookback”. In the vast majority of retirements over the next year or so, the “lookback” will produce the highest benefit. As a result, the practical effect is that the proceeds of these purchases will not be used to compute the member's ultimate benefit. The exceptions are if the member elects a lump sum settlement option, in which case the additional funds will be available for withdrawal; alternatively, there are a small number of instances where the new mortality factors will produce a higher benefit; hence the cost of the purchases will figure in the final benefit (this is an extremely rare circumstance, however). Since HB 2003 disallows any further member contributions to regular accounts after 12/31/03, it is not entirely clear yet where the funds paid to purchase various kinds of time will go. They may be added to your “transition account,” they **might** fall outside the purview of the “member contributions” restriction in HB 2003, or some other solution may be found, but this is not clear as of now. No matter what, nothing in HB 2003 or HB 2004 would prevent the time credit from being purchased.

Q2: The “lookback” remains confusing. What will be the mechanism be to determine the benefit to which the member is entitled at retirement?

A2: Our present reading is that the “lookback” will be a snapshot of three variables as of 6/30/03. The first variable will be the member’s regular and variable account balance as of that date. These balances will be determined by adding to the 12/31/02 balances, the member contributions from 1/1/03 to 6/30/03 (both regular and variable), the regular earnings (pro-rated from 1/1/03 to 6/30/03 at 8% - about 4%) on the regular account balance, and the variable earnings (as of 5/30/03) to 6/30/03. The second variable will be the members' service credit accrued through 6/30/03 (this will only include purchases as in **Q1** if the member has submitted the check for this time and a service retirement application before 6/30/03 **and** retires within 90 days of both. The third variable will be final average salary as of 6/30/03.

At retirement, the member’s tentative benefit will be computed using all current information at retirement: (a) account balance at retirement; (b) service credit at retirement (including eligible purchases); and (c) Final Average Salary. Depending on time of hire, one of two (or three) methods will determine the highest benefit: “Money Match”, “Full Formula”, or “Annuity Plus” (only for members hired before 1981). The tentative benefit will be the highest of the two (or three) methodologies at the time of retirement. Once this methodology is determined, PERS will then compute the benefit under the “lookback” using the same components used to determine the “winning” tentative benefit. The member will receive the higher of the two benefits. Thus, if “Full Formula” is the highest benefit at retirement time, it will be compared only with the “Full Formula” benefit under the lookback and the member will receive the higher of the two.

This mechanism is outlined in HB 2004 – Section 4.2(a) (see specifically the reference to ORS 238.300, which describes the methods for determining the pension allowance). HB 2003 amended HB 2004 to insure that the additional components needed to properly carry out the “lookback” calculations in HB 2004 Section 4.3 were also frozen at the time of the “lookback”.

Q3. HB 2003 requires the PERS Board to pay 0% interest on member regular accounts from 2003 until the deficit reserve is liquidated, and then HB 2001 limits the interest to something between 0% and 8% until the other reserves meet certain conditions. The PERS Actuary estimates that the period of 0% crediting will last at least 3 years more. Since PERS does its interest crediting annually after March 31, what will the crediting policy be for retirements taking place between July 1, 2003 and 4/1/04?

A3. Members who retire between 7/1/03 and 12/31/03 will receive a pro-rate of the 8% “guarantee” to the date of retirement on regular account balances, and the actual earnings rate on variable account balances. For members retiring on or after 1/1/04 and until 4/1/04, the 2003 rate will be 8% on regular accounts. Because HB 2004 requires

that retirements taking place after 7/1/03 use the new mortality tables unless the “lookback” at 6/30/03 produces a higher benefit, there are only a small number of instances where the account balance after 7/1/03 will produce a higher benefit under the new mortality tables (see HB 2004), than would be received under the “lookback” calculation using the “old” (1978) mortality tables. As a result, the retirement benefit the member ultimately receives is unlikely to be higher than the benefit calculated under the “lookback” balance as of 6/30/03. Lump sum settlement options would continue to receive the actual account balance at retirement.

Q4: HB 2003 requires that employee contributions go into a 401-K like “transition account” on or after 1/1/04. What impact, if any, do these “transition accounts” have on allowable contribution rates for members also currently enrolled in deferred compensation plans like those available to many education employees and state employees – 403B/ 457A? Will employees still be allowed to contribute whatever they’re currently contributing to those accounts without concern for what is going into the “transition account”?

A4: There is no relationship between the “transition account” and the deferred compensation plans that employees may be enrolled in. Therefore, one does not have any effect on the other.

Q5a: The mechanism of the retiree COLA suspension seems clear enough except for one detail. To be sure, let me be certain I have the basic mechanism clear. For the select group of members who retired between 4/1/00 and 4/1/04 receiving some sort of monthly pension benefit, PERS plans to go back and recompute the at-retirement account balance on the assumption that the 1999 earnings crediting was 11.33% instead of 20%. This will result in a decrease in the account balance and the allowable monthly benefit. PERS will then apply the relevant COLA’s to *this* benefit and compare result to the actual benefit currently being received by the member. If the member’s actual benefit is higher, the member will be subject to a COLA freeze until the adjusted benefit, adjusted annually for eligible COLAS, catches up with the current benefit. Once that happens, HB 2003 considers that the member has “repaid” the 1999 overcredit and will again be eligible to receive annual COLA’s. Is this an accurate description of the mechanism?

A5a. PERS will compute a “virtual benefit” that reflects the benefit that would have been received if the 1999 regular earnings had been 11.33% instead of 20%. This “virtual benefit” will be eligible for annual COLAs. When the “virtual benefit” catches up with the actual benefit, the retiree will again be eligible to receive annual COLA’s. So, basically the description above is accurate.

Q5b. Now suppose that a member filed a “one time variable transfer” request prior to retirement (in 1999 for 2000; in 2000 for 2001; in 2001 for 2002 etc). These specific requests were computed using the 20% return for 1999. If the 1999 return had been

11.33% instead of 20%, some of these transfers would have been permitted, whereas at 20% virtually none were allowed. While we understand that no current benefit will be reduced for the overcrediting, the overcrediting itself exposes a different problem. If PERS is going to be calculating an “adjusted benefit” (which will be lower) that will be used to determine the length of the COLA suspension, will PERS also re-examine those “one time variable transfer” requests that failed, in order to see whether the test outcome (ORS 238.260(14)) would have changed under the revised 1999 earnings crediting? If the 11.33% figure is used, then this has the potential to change the outcome of the “one-time variable transfer” test and, in turn, alter the balance used for calculating the “adjusted benefit”. Will those that “pass” under the lower crediting be adjusted by moving the variable account balance back to regular in the relevant year and apply the 8% earnings rate to the transferred “variable” instead of the negative variable returns?

A5b. Nothing in the new statutes anticipates this. We must follow the statutory language of HB 2003, and it is silent on this issue. So, at the present time, we do not have the authority or direction to revisit those “one time variable transfer” requests.

Q6. Lump Sum Settlements. Some retirees elect to take any lump sum settlements in several (up to 5) annual installments. Will those members currently receiving lump sums in annual installments continue to receive earnings at the assumed (8%) annual rate, or do these installments also fall under the 0% crediting policy of HB 2003?

A6. The language of HB 2003 does not speak to these retirement lump sum installment distribution accounts. Therefore we do not anticipate any changes in the current policy.

A final note. There are a number of these issues that have arisen in careful examination of the statutory language of HB 2003 and HB 2004 that may require further clarifying legislation. We have brought these matters to the Legislature’s attention and continue to do so as we find more areas where the statutes could be clearer and more precise. We expect the Legislature will consider some of these “technical” amendments to HB 2003 and HB 2004 in a future bill.

