Presentation to the House Committee on PERS given by Margaret Hallock on behalf of Governor Theodore Kulongoski on April 17, 2003

Overview of Reform Package

* Shift member's 6% contribution to a companion defined contribution account

* Restructure the way interest is credited to Tier I regular accounts, suspending the guarantee of interest credit during times of poor investment returns, and moving to a more logical "pay as you go" crediting system. This reform is based on our interpretation of the contract promise that member accounts are guaranteed to earn the assumed rate over the course of one's career rather than each and every year.

* Recapture amounts that were over-credited in 1999 by temporarily suspending future cost-of-living increases to members who retired under money match between 2000 and 2004.

THE GOVERNOR'S STANDARDS FOR PUBLIC PENSION REFORM
(JANUARY 2003)

- **A New Oregon Retirement Plan**
  - It must be fair, sustainable, affordable and based on industry standard defined benefits plans.
  - It must be simple and comprehensible to public employees and taxpayers.

- **Stop the Bleeding**
  - It must substantially reduce escalating and unsustainable costs of the current PERS system.
  - It must reduce the cost to taxpayers for the coming biennium's budget as well.

- **Accountable**
  - It must have new governance, and must be accountable to the public, to employers and employees.

- **Eliminate uncertainty**
  - It must eliminate the uncertainty for employers, employees and taxpayers.

- **Protect Retirees**
  - It cannot reduce benefits of people who have already retired.

- **Mitigate Impact on Current Employees**
  - Those who have not yet retired will retain what they have accrued in their accounts.

Framework and Rationale

- Findings of Judge Lipscomb of excessive interest credited to Tier I member accounts in 1999

- Financial Exigency

- Our interpretation of intent that member accounts should earn the long-term assumed rate over the long term, not each and every year

Principles of Reform

- Target the impact to those who benefited from errors and the current interest crediting mechanism.
- Protect accrued benefits.
- Highlight the financial health of the system by giving priority to erasing deficits in the reserve accounts.
- Restructure the drivers of the system that create unsustainable costs.

Member 6% Contribution

Shift to a separate, companion defined contribution plan

Stops the growth of member accounts that is compounded and then matched

Applies to both Tier 1 and Tier 2 members

Reduces 2001 unfunded liability $ 1.9 billion and ’03-’05 employer rates by 0.98 %.

Restructure the Mechanism for Crediting Interest Earnings to Tier 1 Regular Accounts

- No interest credited when there is a deficit in the reserve
- Market rate credited between 0 and 8%
- Gain/Loss Reserve, if available, can fill in the difference between actual earnings and the assumed rate
- HB 2001 governs earnings credits over 8%. Reserve must be full before interest credit can exceed the assumed rate.

Deficit	**"Market Rate"**	**Gain/Loss Reserve**
← 0		**8% HB 2002 →** **(Assumed Rate)**

- Reduces 2001 unfunded liability by $4.6 billion and employer rates by 4.32%.