

PER Board Testimony Opposing SB444
by Kelly Jenkins, General Counsel
Senate Business, Labor and Economic Affairs Committee
February 17, 2005

The Public Employees' Retirement Board (PER Board) opposes SB444 for one fundamental reason: The cost.

The PER Board would also like to note a fairness issue as a policy consideration.

Before I talk about the dollar amount of cost, this is a good chance to provide a simplified explanation of how retirement benefits are calculated. The PER Board staff keeps track of compensation paid each retirement system member and the years of service credit for each member. Generally, service credit is given for years of employment, but also a limited amount of service can be purchased, under limited circumstances. I'll use the largest system, PERS as an example. When a PERS member retires, the PER Board staff uses the High Average Compensation for 36 months in the Benefit Formula. The Benefit Formula is on the handout.

Initial **Benefit** = High Average Compensation X Years of Service X 1.785% or 2%

Additional Years of Service credit will obviously increase the initial benefit. If Years of Service exceeds 25 years, the formula will use 2% rather than 1.785% for each year of service.

A couple of examples:

- A 60 year old employee averaging \$2,000/month in wages, with 20 years of service will receive a monthly benefit equal to
 $\$2,000 \times 20 \times 1.785\% = \$714/\text{mo}$
- A 60 year old employee averaging \$2,000/month in wages, with 25 years of service will receive a monthly benefit equal to
 $\$2,000 \times 25 \times 2\% = \$1,000/\text{mo}$

Simply put, adding years of service increases the amount of the benefit.

SB444 amends a statute that already allows purchase of service credit in the retirement systems for time spent in the military.

At one time, the value of that service credit in PERS was roughly the same as the normal contributions made during the employee's 11th year (or, in some of the smaller retirement systems, the 16th year). So retirement system members were allowed to purchase a year of service for one year of normal contributions.

Since then, the benefits have improved substantially. Retirees have been allowed a Guaranteed Annual Benefit Adjustment (GABA) of 3%/year. PERS members who retire with 25 or more years of service now receive a "career bonus" that increases their benefit substantially.

Because the value of the benefit has increased substantially, the cost of purchasing additional service also increased in the statute to the full actuarial cost. SB444 seeks to reduce the cost of purchasing military service back to the cost when that military service was not so valuable.

Under SB444, the difference between the cost of the benefit and the purchase price paid by the member is essentially another benefit given to that member. It is an additional benefit that has a cost to the system.

Remember, there is no magic money. An increase in the benefits given to members requires an increase in contributions or investment income. Investment income is not keeping pace with expectations. That means that contributions would have to be increased. **The cost of this benefit improvement will be detailed in the fiscal note. But the bottom line is that the cost has been calculated to be \$2.5 million.**

This benefit improvement must be paid for by this legislature in order to maintain the actuarial soundness of PERS, the Game Wardens and Peace Officers' Retirement System and the Sheriffs' Retirement System. However, no funding is provided in this bill. Unfortunately, there is no "magic money".

That is the primary reason the PER Board opposes this bill.

There is another issue, an issue of fairness. Many veterans have already purchased service at the higher cost. If the cost is reduced now, those veterans would be punished for following a reasonable law, rather than seeking special treatment.

The PER Board opposes SB444, for the reasons expressed above.