



Oregon Public Employees Retirement System

Plan Summary	Before Plan Changes	After 2003 Plan Changes
Plan Type	Defined Benefit	Hybrid: Defined benefit with defined contribution
Contribution Rates	<p>Employer: varied by employer; system average immediately pre-reform was 16.5%.</p> <p>Employee: 6%, but paid by employers for majority of employees; contributions post to PERS Pension account</p>	<p>PERS Pension Employer: varied by employer; system average immediately post-reform was 10.6%.</p> <p>PERS Pension Employee: 6%, but paid by employers for majority of employees; contributions post to Individual Account Program (IAP)</p> <p>OPSRP Employer: 8% to 11.65%.</p> <p>OPSRP Employee: 6% to an IAP</p>
Funding Formula	<p>PERS Pension: Multiplier of 2% for police and fire employees; 1.67% percent for general service employees x years of service x final average salary</p> <p>Benefits may also be calculated under a formula plus annuity (for members prior to 8/21/1981), or a money match computation (in which the employer matches employee contributions plus earnings), if a greater benefit results.</p>	<p>PERS Pension: Multiplier of 2% for police and fire employees; 1.67% percent for general service employees x years of service x final average salary</p> <p>Benefits may also be calculated under a formula plus annuity (for members prior to 8/21/1981) or a money match computation, if a greater benefit results.</p> <p>OPSRP: Police and fire: 1.8% x years of service x final average salary</p> <p>General service: 1.5 x years of service x final average salary.</p>
Membership	225,181 active and terminated vested, and 114,252 retired members as of June 30, 2011 ¹	

Background

As a result of investment losses, inaccurate actuarial assumptions, and outdated mortality tables, the Oregon Public Employees Retirement System's (PERS) unfunded liabilities jumped from \$21 million in 1991 to \$257 million in 1997.

Pre-reform, PERS retirees received the highest of three benefit calculations for which they qualified. Historical actuarial assumptions had estimated liabilities based on a formula which, when created in 1981, used a multiplier of 1.67 percent for general service and two percent for fire and police. However, by the mid-1990s, the money-match calculated benefit provided a more lucrative benefit and was the formula used to calculate the majority of employees' benefits.² Therefore, employers were paying contributions on a benefit that was far cheaper than what was actually being promised. In

addition, PERS was calculating the annuity based on older mortality tables that predicted shorter life spans, thereby paying monthly benefits larger than would have been the case had a more accurate mortality table been used.³

Benefits for retirees reached an all-time high during the early 2000s, and the market downturn in 2008 exposed systemic issues of the money-match plan. From 1999–2003, the average benefit for a new retiree with 30 years of service was at least 93 percent of his or her final average salary, excluding Social Security.⁴ By comparison, career employees who retired in 1990 received a PERS benefit equal to 61 percent of final average salary, excluding Social Security. The media continues to be critical of generous government retirement benefits, the PERS structure, and plan recipients.

Due to concerns with projected pension cost increases, four local governments filed suit against PERS in 2000 for using outdated actuarial tables as well as other factors that contributed to the growing unfunded liability.⁵ In 1999, PERS and the employers reached a settlement on the amount of credit due employees, reducing it from 20 percent to 11.33 percent, with the difference going into the reserve accounts. In 2005, the Oregon Supreme Court ruled that the settlement and the 2003 reform legislation had settled the issues in the case.

The legal victory saved employers \$1.6 billion, established a precedent permitting changes to the money-match system for current employees, and empowered local governments to lobby the legislature for significant changes to PERS.⁶

In November 2002, Oregon elected a new Democratic governor who had a long history of supporting organized labor, and a legislature with a solid Republican majority in the House and slight Democratic majority in the Senate. The four local governments that had previously filed suit against PERS found support for pension reform from the Republican chair of the House Committee on the Public Employees Retirement System,⁷ and a Democratic freshman legislator on the committee.⁸ Pension reform bills were introduced in early March 2003. The House PERS committee held eight public hearings and four work sessions before passing the bills, while the Senate passed the bills with only one hearing and one work session. Through a well-coordinated lobbying and media outreach effort, the legislation passed with strong majorities, and the governor signed the bills eight weeks after their introduction. Key elements of the reform bills included:⁹

- Employee contributions for tier one and tier two members would be directed to accounts in a new Individual Account Program (IAP), similar to a 401(k) retirement account in which earnings fluctuate with market returns. By directing the employee contributions to these accounts, the regular accounts from which the money match is calculated no longer receive new contributions. As

a result, growth in the PERS accounts comes only from investment earnings on existing balances.

- A new retirement plan for employees hired on or after August 29, 2003, called the Oregon Public Service Retirement Plan (OPSRP), was established. OPSRP (1) decreased the defined benefit multiplier from 1.67 percent to 1.5 percent for regular employees and from two percent to 1.8 percent for public safety employees and redirected employee contributions to the new Individual Account Program; (2) increased the retirement age to 65 for general employees and 60 for public safety employees; (3) eliminated the COLA bank that existing employees could use when inflation exceeded the statutorily set 2 percent maximum COLA,¹⁰ and (4) excluded sick leave and overtime crediting from final average salary calculations.

Labor groups immediately sued PERS over the new legislation, and the courts found some important components to be unconstitutional. However, moving employee contributions to the IAP was deemed legal. In the six months after the reforms took effect, 12,000 employees—more than double the record for retirements in any one year—retired.

Results to Date

Since the reforms, PERS's liability growth has dropped to three to four percent and is close to the system's annual assumed inflation rate of 2.75 percent. Without reform, employer rates would have been 32 percent for all pension plans combined. Because of the reform, they are 16.3 percent.¹² More specifically, the 2011–2013 employer contribution rates for the new Oregon Public Services Retirement Plan are 6.2 percent for general employees and 8.9 percent for police and fire.

While the reforms of 2003 were effective at controlling unfunded liability growth, the governor and legislators introduced additional pension changes in the 2011 legislative session. One of the changes proposed and ultimately passed in a different form was a modification to the “tax remedy” payment, which provides a

Funding Progress (for dollar values, in millions)¹¹

Year	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	ARC
2010	51,583.6	59,329.5	7,746.0	86.9%	8,750.1	472.4
2009	48,729.2	56,810.6	8,081.4	85.8%	8,512.2	630.8
2008	43,520.6	54,259.5	10,738.9	80.2%	8,130.1	707.4
2007	59,327.8	52,871.2	(6,456.7)	112.2%	7,721.8	805.7
2006	56,616.5	51,252.9	(5,363.5)	110.5%	7,326.8	938.6

benefit increase to offset state income taxes paid by some retirees. The proposed cost saving measure was meant to eliminate this benefit for current and future retirees who live out of state and are no longer subject to Oregon income taxes. The bill as enacted removed this benefit only for those who retired after January 1, 2012.

According to PERS Interim Actuarial Services Manager Debra Hembree, because of the legal challenges to past reform efforts, legislators are careful about discussing additional changes to the pension system, particularly to retiree benefits, as any change must have both a strong chance of being passed as well as being upheld in likely legal challenges.

Future Plans

According to Hembree, PERS is likely to be a significant issue in the 2013 legislative session because employer contribution rates are rising and the economy is still struggling. It is likely there will be additional proposals to cut liabilities in the 2013 legislative session. Specific areas that may be considered may include further revising the tax remedy benefit to include all retirees who reside out of state; reducing or eliminating employer payment of the 6 percent employee IAP contribution, using Tier 1 and Tier 2 members' 6 percent employee contribution to help fund those members' pension benefits; or putting a cap on the amount retirees can receive in cost of living adjustments.

Endnotes

- 1 Comprehensive Annual Financial Report, Oregon Public Employees Retirement System for the Fiscal Year Ended June 30, 2011.
- 2 In the money-match method, the pension plan doubles a member's account balance (contributions and interest) upon retirement, then converts the balance into an annuity based on the retiree's life expectancy and assumes that as the account is drawn down, the remaining balance continues to earn 8 percent annually ("Oregon losing Money Match game in Public Employees Retirement System fund," March 10, 2012, Oregonlive.com)
- 3 Interview with Steve Manton, Portland policy analyst, January 10, 2011.
- 4 The highest benefit based was reached in 2000 when a 30-year PERS member would earn on average 106 percent of FAS, excluding Social Security.
- 5 The cities of Portland and Eugene and Multnomah and Lane counties filed the suit. The suit also included a number of other smaller, single-purpose governments. However, these latter governments were not the major advocates for reform. The case is referred to as *City of Eugene vs. PERS*.
- 6 Ibid.
- 7 Tim Knopp (R)
- 8 Greg MacPherson (D)
- 9 The Oregon Public Employees Retirement System History: The First 60 Years.
- 10 State law provides for an annual 2 percent COLA increase for pension benefits. When the inflation rate is more than 2 percent, the excess inflation is accumulated and applied to benefits when inflation falls below that level.
- 11 Comprehensive Annual Financial Report, Oregon Public Employees Retirement System for the Fiscal Year Ended June 30, 2011.
- 12 Rates exclude side accounts. Per Debra Hembree, 6/8/2012.