Oregon PERS Crisis 101

Part 1: What is the PERS crisis?

The crisis in the Oregon Public Employee Retirement System (PERS) has been [in the news]() again recently. PERS announced hundreds of millions of dollars in higher pension costs in the budget that starts next summer; the result of an unfunded liability that has grown to $16 billion. That means that PERS is projecting it will have to pay out $16 billion more in retirement benefits than it will have in investment income and employer contributions. The investment income comes from investment earnings on PERS' $55 billion in holdings, and the employer contributions come from most of the state and local government agencies within Oregon, including school districts.

PERS assumes an average investment earnings of 8%, but last year those earnings came closer to 2%, continuing a trend that started when investment earnings began dropping in 2008. To make sure there's enough money to pay the pensions of PERS retirees in the future, PERS is raising the amount that the government employers have to contribute. For next year's budget, that means contributions for all of the PERS employers will increase by a total of $1 billion[1]; about $130 million of that just for the General & Lottery Fund portion for the 51,000 employees in the state budget.

That's a double whammy for K-12 schools. The $130 million of increased state PERS costs will come from the $15 billion state General & Lottery fund, which provides a major source of K-12 funding ($5.8 billion statewide), and the school districts will also directly bear the impact of their own PERS increases. For example, Hillsboro School District (HSD) is paying 18.5% of payroll for PERS now and they are expecting an increase to 24.5% next summer.

The total payroll budget for HSD is $91 million, and so that increase from 18.5% to 24.5% represents an increase of $5.1 million dollars, or 70 teachers. So next summer ***just to pay for PERS increases, Hillsboro will have to lay off 70 more teachers***, or more taxes will have to be collected or investment returns will have to increase – thus reducing how much HSD, as an employer, has to pay PERS. But PERS doesn't see employer payments coming down "for the rest of our working years."

Additionally, the reduction of 70 teachers is before the impact of the $130 million of increased PERS costs to the state General & Lottery fund is factored in. If the state has to absorb an additional $130 million cost in its $15 billion budget, it could further reduce the $5.8 billion K-12 state school fund. That would reduce how much the Hillsboro School District receives from the K-12 state school fund. If the cuts were applied evenly across the board in the state budget, it would result in the reduction of about 14 more Hillsboro teachers. That would be the equivalent of a total of 84 teachers laid off next year just for the Hillsboro School District to pay for PERS ***increases***.

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Part 2: What's causing the PERS crisis?

The retirement paid to PERS retirees

Financial studies recommend that you have a retirement income that's 75-80% of what you made when you were working, and about 30% of that is expected to come from Social Security. The 45-50% of retirement income that's not Social Security would then be made up of 401(k) or IRA income, company retirement plan income, etc. Several decades ago it was much more common to be working for an employer who had an actual retirement plan, but nowadays most employers just provide some sort of 401(k) contribution matching.

In their February 2011 report, PERS stated that PERS members who retired after 30 years of service had an average PERS retirement income of 77% of what they made when they were working. Combined with the 30% from Social Security, that provides PERS retirees with an average retirement income that's 107% of what they made when they were working.

For a non-PERS retiree, if the value of their IRA or 401(k) goes down, then the amount available for their retirement goes down. Not so for PERS retirees. Losses in the market that would affect the money available to pay a PERS pension must be made up for by government employers in Oregon, who in turn get their money from taxpayers. That's what the $16 billion unfunded liability discussed in Part 1 is. More than 90% of that $16 billion is due to PERS members who have already retired or were hired before 1996.

A 2011 report on PERS by the City Club of Portland summarized "PERS today is heavily burdened by the past. Before earlier legislative reforms, members received a generous guaranteed annual return on their burgeoning retirement accounts. Members dominated the PERS governing board, frequently crediting accounts with more than double the generous guaranteed rate, sometimes as high as 20% in a single year. Many public employees retired with PERS pension payments equaling or even exceeding their salaries at retirement, with Social Security benefits as icing on the cake".

Another significant factor in how much PERS ends up costing employers like the Hillsboro School District is how long retirees collect their PERS pensions. PERS members hired before 1996 can retire at age 58 or even earlier with 30 years of service. PERS members hired before 2003 can retire at age 60 or even earlier with 30 years of service.

Almost everyone who can fix PERS, is on PERS

Changing PERS is not easy. With a few notable exceptions, too many governors and too many sessions of the legislature have kicked the can down the road, letting the problems grow and pushing the difficult job of finding solutions onto "someone else". Besides the political pressures that PERS members bring to bear through their public employee unions, there's a bigger problem: most of the people who can fix PERS, are on PERS.

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In an article last December, Larry Huss laid out very well how all three branches of Oregon's government have been co-opted by PERS.

- "The terms and conditions of [PERS] are determined by the Oregon ***Legislature***. All of the members of the legislature are eligible to be members of PERS and most are."
- "The administration of the PERS system falls to the ***executive*** branch (governor). The governor and all the members of his administration, including those who directly administer PERS, are beneficiaries of PERS."
- "The ***judiciary***, all of whom are eligible to be members of PERS – and most of whom are – determine the constitutionality of attempts to reform PERS. Twice reforms have been adopted… Twice the Oregon Supreme Court invalidated those reforms."

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Part 3: How do we solve the PERS crisis?

Previous PERS reforms have made major strides in making PERS sustainable, but the excesses of the past still leave PERS vulnerable to downturns in the market. The significant PERS reforms in 2003 were spurred on by the bust of the Dot-com bubble, and the 2008 market collapse has once again exposed the vulnerabilities hard-wired into PERS by past excesses.

Without reform, PERS will continue to eat away larger and larger portions of government budgets across Oregon, including school budgets. Gov. Ted Kulongoski's 2010 Reset Cabinet report warned that if it wasn't reformed, PERS could add more than $1 billion by 2015-17 to the general fund costs for state and school employees. The total state general and lottery fund budget is $14 billion to $15 billion, and so adding $1 billion just for increased PERS costs is a major problem.

The problem with the additional reforms needed for PERS isn't a lack of ideas; it's a lack of political will.

To pay for the PERS funding problem, there are three general options:

1. Increase taxes
2. Further reduce services (cut school days, lay off more teachers, etc.)
3. Reduce the costs of government (reduce PERS costs, reduce other government employee benefits, find government efficiencies, etc.)

Increasing taxes is going to be a tough sell to pay for past PERS excesses. How can we ask those who have already taken a beating in the economy to pay even more so that PERS retirees can be insulated from the downturn in the economy? It's not fair to ask someone who lost their job and had to cash in their IRA or everyone who saw the values of their 401(k)s drop, to now double-down on their economic pain just so PERS retirees don't have to feel *any* pain.

It's just as unfair to continue reducing services. Our schools and other essential government services need to have their funding restored, not cut further.

The first option that needs to be pursued then, is reducing the costs of government, and specifically reducing the cost of PERS first. There are well thought out and reasoned proposals for reducing PERS costs in places like the 2011 report on PERS by the City Club of Portland, and there are other ideas for reducing the costs of government in places like Gov. Kulongoski's 2010 Reset Cabinet report.

What we need now is the political will. There are intrinsic forces that will oppose reducing PERS costs and reducing other costs of government, and there will be tough battles to fight.

We need to vote for representatives and officials who will fight those fights. We then need to strongly encourage and support those representatives and officials to reduce PERS costs and other costs of government. We can support them with emails, phone calls, letters to the editor, participating in town halls, etc.

The cost of not fighting these fights is too high. We can't continue to stand by and watch as our schools continue to make cuts we can't afford.

This series appeared in the Hillsboro Argus/OregonLive and Oregon Catalyst in October 2012.

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[1] *NOTE: Discussions and articles throughout 2012 have referred to next year's PERS statewide increase as $1 billion. In articles in the last few weeks, the $1 billion PERS increase has been revised to $900 million. The $1 billion reference in this article is informational only – it was not used in any calculations.*