PERS reform a priority for business

By Ted Sickenger
The Oregonian

PORTLAND (AP) — Reforms to Oregon's public pension system took a prominent position in the playbook business leaders unveiled at their annual economic confab with legislators.

Organizers of the Oregon Leadership Summit identified soaring pension costs as one of the main headwinds that could stall or derail fiscal and economic progress.

But Democratic leaders who spoke at Monday's summit gave the issue a wide berth. Gov. Kate Brown didn't mention it. Nor did House Speaker Tina Kotek. And Sen. President Peter Courtney gave it an oblique reference as a contributor to the budgetary Civil War that he says could unfold in 2017.

Away from the main convention ballroom, however, the state's looming pension problems took center stage at a sparsely attended breakout session late in the day. A panel of experts dissected their history and their looming impact on government budgets.

They urged lawmakers not to ignore the problem: an $18 billion-and-growing funding deficit in the Public Employees Retirement System. In order to bail it out, required payments from government employers will go up by 20 percent in each of the next three budget cycles, said Steve Rodeman, PERS executive director.

By 2021, that means schools, municipalities and government agencies will be dedicating almost one-third of their payroll dollars to the retirement system.

John Tapogna, an economist with ECONorthwest, said legislators had designed an "unusually exotic" and expensive pension system. He called it a generational mistake, and said the state continues to deal with its aftermath.

In May, the Oregon Supreme Court threw out most of the pension reforms enacted by the Legislature in 2013. In the process, it put any reduction in current retiree benefits off limits. That eliminated the reforms lawmakers felt were most equitable, because retiree benefits comprise the bulk of the system's unfunded liability.

Yet panelists on Monday discussed several ways in which the cost increases expected in coming years could be more equitably absorbed or minimized.

Chief among them: requiring public employees to contribute to the pension fund, absorbing some of the expense currently being borne by public employers and taxpayers.

Panelists said Oregon is the only state in the nation that requires no contribution to its public pension system from employees. That has been the case since 2004, when previous pension reforms redirected public employees' 6 percent retirement contributions out of the pension system and into a supplementary retirement account owned by employees.

Putting some or all of those contributions back into the retirement system could offset as much as $1.2 billion in required contributions from employers every biennium. That's about half of the incremental cost increases expected to kick in over the next six years.

Eugene attorney Bill Gary recently delivered a legal opinion on the issue to the Oregon Business Council, which organizes the summit. He said such a move would almost certainly be declared legal by the Oregon Supreme Court.

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"There are various mechanisms out there to establish cost sharing and increased employee contributions, and that's what we've put out there in concept," said Tim Nesbitt, an advisor to two past governors and former labor leader who served as a consultant on the business plan.

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The business plan's policy playbook also suggested that the state could reduce the interest rate it uses when calculating members' annuity payouts under its controversial money-match formula. The system currently uses its assumed earnings rate on investments – 7.5 percent – in that calculation instead of a market rate, which would be several percentage points lower.

That not only inflates members starting benefits, but is compounded as retirees earn annual cost-of-living increases in future years. Using a market-based interest rate in the calculation could save more than a $1 billion over time, the panelists said.

Senator Tim Knopp, R-Bend and a veteran of Oregon's pension wars, plans to introduce a bill with several cost-cutting measures in the upcoming session. He said it would include both the fixes outlined in the business community's policy playbook, along with a few more.

Knopp said there would be plenty of political pressure to ignore the issue in the upcoming legislative session, and it would take both political courage and public pressure to make any progress.

"It needs to be fixed," he said. "It will devastate public budgets if we don't act."