Public pension debate returns to Oregon Legislature

By Ted Sickenger
The Oregonian/OregonLive

PORTLAND (AP) — Sen. Tim Knopp, R-Bend, and Jeff Kruse, R-Roseburg, teed up what could be the most contentious debate of the upcoming legislative session by introducing two bills to make money-saving changes to Oregon's public employee retirement system.

If, that is, Democrats allow a hearing on either measure.

The pension changes offered in the bills are a subset of the list that Knopp and Sen. Betsy Johnson, D-Scappoose, put together last fall. They did so after holding an informational meeting at the capitol to explore ways to reduce the fund's $22 billion unfunded liability and the budget-busting spike in required contributions from public employers.

The concepts also are familiar to legislative leaders, the governor, public employees, their unions and lawyers — all of whom have been reluctant to discuss any changes that would reduce members' pension benefits. With voters' rejection of Measure 97's tax increases and the state facing a $1.7 billion budget deficit, however, the debate may be back come February.

Knopp said the proposals in his bills were selected from the larger list because they have a better chance for broader, bipartisan support and create the most savings.

"I'm confident we're going to have hearings on PERS, and I think it will happen fairly early," Knopp said. "We're going to have to deal with these fundamental structural issues."

Knopp said he was going to be requesting hearings from both Senate President Peter Courtney, D-Salem, and Sen. Kathleen Taylor, a Democrat whose district stretches from Southeast Portland to Lake Oswego, who chairs the Senate Workforce Committee. Taylor could not be reached for comment.

The proposals in Senate Bills 559 and 560 include:

Redirecting employees' required 6 percent retirement contributions to support the pension fund beginning Jan. 1, 2018. Those contributions currently go into a supplemental investment account that belongs to the employee, making Oregon one of the only states that requires no pension contribution from employees. Redirecting the contributions would not reduce pension liabilities, but could offset as much as $600 million a year in contributions from employers.

Capping a members' final average salary used in the calculation of their benefits at $100,000. The change would apply prospectively, so the only limit for service rendered before Jan. 1, 2018, would be a $265,000 federal limit that applies to public employees hired after 1995. The cap would have little impact on rank and file employees, but would affect higher paid managers, coaches and, in particular, doctors working at Oregon Health & Science University. PERS actuary, Milliman Inc., says this proposal would reduce the pension system's total liabilities by $3.3 billion and could lower required contributions from employers by about $285 million a year.

Finally, the bills would change the calculation of final average salary so it is the average of five years of wages instead of three years. The change would reduce average salaries used in the annuity calculation and temper pension spiking by reducing the impact of big pay raises or heavy overtime in the final years of employment. The actuary said this measure would reduce the system's total liabilities by $700 million and cut required contributions from employers by about $65 million per year.

Greg Hartman, a lawyer for the PERS coalition of public employees who successfully challenged most of the last round of pension changes, said he wasn't surprised to see the smaller list of reform ideas, as the others being discussed "were pretty clearly illegal."

He said he hadn't seen the bill, but was curious to see how Knopp was proposing to redirect employee contributions to support the pension fund. "I think it's very problematic to do this in a way that's legal.

Finally, Hartman contends that the actuary's estimate of savings from limiting final salaries in benefit calculations was significantly overstated.

If lawmakers debate any PERS changes, it would mark a reversal from the last two sessions. Gov. Kate Brown, Courtney, and House Speaker Tina Kotek have already indicated their reluctance to take on the issues, conscious that their political benefactors in the public employee unions would take a dim view.

Brown said last fall that her legal team had looked at the list of fixes being circulated and determined there was nothing left that was both legal and economically significant. She plans to put her weight behind a proposal to restructure the state Treasury's investment management division and bring more of the work in-house to save on management fees. Treasury estimates that the proposal could save $1 billion over 20 years, though lawmakers have been reluctant to give the agency the additional autonomy it is seeking.

"I look forward to the other solutions to be proposed in the months ahead," Brown said at her swearing-in ceremony Monday. "As we consider our next steps, let's agree to keep our promises to retirees. Let's ensure that no one can advantage of the system. And let's seek solutions that are legally viable, so that dead ends aren't left to languish in court while the challenge of PERS only continues to grow."

It's not clear whether that signals more flexibility on the issue, but public employees are almost certain to sue to block changes that reduce benefits or seek some compensation at the bargaining table.