Pension system exceeds expectation

By Ted Sickenger
The Oregonian/OregonLive

PORTLAND (AP) — Thanks to a red-hot stock market, Oregon's public pension system investment portfolio generated a 15.3 percent return last year, more than double what was expected and sufficient to lop $3 billion or so off the system's $25 billion unfunded liability.

But it wasn't enough to head off another painful round of pension cost increases slated to hit government budgets in 2019.

The Legislature will probably delay any serious conversation about changes to benefits, as it has for the past three years. Gov. Kate Brown, for one, says she's not ready to talk about the main benefit reform idea in circulation — reinstituting some level of employee contributions to the pension fund — until 2019.

In the meantime, she has another plan, or two plans actually. The first would redirect a slice of state revenues to offset the pension costs of K-12 schools, community colleges and universities. The second involves enticing the 900 or so public employers who participate in the system to shake their sofa cushions, identify reserve resources and deposit them in accounts at PERS. In the process, they would be gambling that the pension fund's investments will generate higher returns than the low and largely risk-free returns those dollars earn today in the short- and medium-term funds managed by the Oregon Treasury.

Historically, that's been a good bet. But it's no sure thing.

The Public Employees Retirement System paved the way this fall, relaxing minimums and reducing fees on government employers, to make extra deposits. Those funds would go into "side accounts" that are invested alongside pension assets. Those account balances are then drawn down gradually to reduce an employer's annual pension costs.

As the system's actuary likes to say, side accounts leverage, or amplify the effects of the system's investment returns on employers' pension costs. If returns are good, the side account balances and the pension savings they generate grow. But there is also the risk of a stock market downturn depleting the funds after they're deposited, which can turn the strategy into a loser.

To sweeten the pot and tilt the risk-reward balance in employers' favor, the governor is looking to set up an incentive fund that would match employer deposits by 25 cents on the dollar. The idea was hatched by the task force that Brown appointed last year to look for ways to reduce the pension deficit by $5 billion. Its success hinges on the state's ability to come up with the seed funds, and employers' finding the money to take advantage of them.

Neither is assured. While the goal is for the state to come up with $400 million, which could match an additional $1.6 billion in employer contributions, no revenue source has been identified yet.

If the state comes up with the dollars, the plan is to prioritize employers with the largest proportional liabilities. Employers would have to apply reserve matching dollars from the funds by the end of 2019, then they'd have another three-and-a-half years to come up with the extra pension contributions.

"We expect to see some rate relief in '21-'23 and potentially even further rate relief the following two biennia," said Elana Pirtle-Guiney, the governor's workforce and labor policy.

Scott Winkels, a lobbyist for the League of Oregon Cities, said he wasn't sure how many cities have revenue sources they could tap to put in side accounts. Lawmakers, he said, should be looking at benefit reforms, including employee contributions, on top of this effort.

"This isn't the end all be all," he said. "It's not going to solve the problem, but it's something we need to do. It's the right thing to do."

The school funding, meanwhile, would be a bulk side account funded with a straight redirection of existing state revenues and no contributions required from the schools, community colleges or universities, said Pirtle-Guiney.

The governor's office is hoping lawmakers agree to capitalize that fund with a "few hundred million" dollars, she said. The legislative concept includes a number of potential revenue sources, including a proposed tax amnesty program that would give delinquent taxpayers a break on their accrued interest and penalties if they paid all or a portion of their back taxes. The state last offered such a program in 2009 and raised about $40 million, about half of it unexpected revenue.

The other source of funds would be one-time revenue streams and windfall dollars. Those could include lawsuit settlements and debt collections, as well as tapping a set of standard revenues if they come in above average.

Running commentary

By Charlie Kanzig
Correspondent

I am viewing this winter's mildness as a sort of an apology from Mother Nature for last year's historic and long-lasting snowfall. And though we all want the snowpack up in the mountains to build up soon for the sake of water supplies, I am hoping this spring-like winter is not going to turn into a winter-like spring.

The lunar eclipse last week pulled me out of bed early in the hopes of a peek of the blue moon being overtaken by earth's shadow. When I headed out the back gate with my two dogs the sky was very dark and I wasn't sure whether it was from thick clouds or if the eclipse was in full swing. It was not until heading back home at the end of the short run that I caught a sliver of moonlight through the ponderosa branches. Instead of heading home, I jogged to the eastern edge the pasture at Reed Ranch so I could get an unobstructed view.

Clouds threatened to hide the moon completely, but clear skies prevailed and I got to stand for a few minutes in the quiet of the morning relishing the relatively rare event.

In a sense, this is a story of motivation. I had not gotten up to run in the morning for more than a year as of last Wednesday, but the wonder of nature tipped the scales for me. As soon as I was out the gate and trotting down the path with my new headlamp lighting the way (and spookily reflecting back to me in the eyes of my canine friends), I felt the sense of adventure and the joy that being out in the woods before dawn brings.

It felt like getting reacquainted with an old friend.

Not every day includes an eclipse, but morning runs are always good for the soul.

With trails, roads and tracks free of ice and snow, runners may be more ready than ever for races coming up this spring, including a couple of local favorites, the Peterson Ridge Rumble on April 8 and the Sisters 'Better Half' on April 28.

The Rumble, which supports the cross-country and track programs for Sisters schools, features a 20-mile race and a 40-mile ultra, while the Better Half includes a half-marathon, a quarter marathon, and a two-person relay that covers the half-marathon distance. The Better Half is a fundraiser for the Outlaws' swim team.

Footzone, Bend's one and only running store, keeps an updated list and links for local and regional races, including the Rumble and the Better Half, on its website www.footzonebend.com/events.

Whether the snow and ice return or not, my motivation has been sparked and I sense some more morning runs in the days ahead.