...PERS under threat . . . again

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left a hole in the amount of money the system will eventually need in order to pay retiree benefits. Today, PERS' assets are valued at $69.9 billion, and the hole, known as "unfunded actuarial liability" is estimated at $21.8 billion.

To shrink the unfunded actuarial liability over the next 20 years, the PERS system expects to increase the required contribution of all 925 participating public employers — including the state, cities, counties, school districts, and special districts. On July 1, employer contributions will go up to 14 percent of payroll from about 9 percent now, and they'll go up again every two years.

What to do about all this? Public employee unions, together in the PERS Coalition, have defended beneficiaries again and again in court against retroactive cuts — cuts made to benefits after they were promised. And the Oregon Supreme Court has ruled repeatedly that a deal is a deal: Public employers' past promises to their employees are legally binding and must be honored. Thus, benefits can only be cut "prospectively" — going forward.

That's what some Republican lawmakers are seeking to do this year: Cut future benefits for current employees, and divert their current pension contributions to pay off the system's previous liabilities. Since 2003, the required 6 percent employee contribution to PERS has gone into 401(k)-style "defined contribution" accounts. One bill, SB 560, would take that money and use it to pay down the unfunded liability owed to those who worked before 2003. Other bills would raise the retirement age to 67, or lower benefits by basing final salary on a five-year average.

But public employee unions argue that it's fundamentally unfair to put the burden of the system's investment losses on current and future employees, who already get lower benefits thanks to previous changes. Several hundred fire fighters and other public employees turned out to make that point at a Feb. 13 hearing on SB 560.

"We are a union of publicly funded workers," said SEIU Oregon State Council State Director Melissa Unger in written testimony submitted at the hearing. "So we are acutely aware of the budget challenges and the fact that the increasing employer rates put pressure on the budget. The answer to the budget challenges cannot be to decimate retirement benefits of low-income and middle class Oregonians who had no role in creating the PERS liability."

Where to get the money

If it's unfair to burden current employees, who should shoulder the burden? Unions have an answer: The one group that's done very well in recent years — big corporations and those in the top 1 percent of incomes. Right now, according to a study by accounting firm Ernst & Young, Oregon has the lowest "total effective business tax rate" in the nation.

Some business groups have suggested that they'll support proposals to increase taxes, but only if the Legislature first reins in the cost of PERS.

"They say we have to act on PERS reform *and* we have to have tax reform, but the truth is, we never really get around to the tax reform part," says Everice Moro, retired school employee and former president of Oregon School Employees Association. Moro was lead plaintiff in *Moro*

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PERS AT A GLANCE

Participating employers: 925
Current retirees: 134,000
Benefits paid per year: $4 billion
Average benefit: $2,362 a month
Assets: $69.9 billion
Assumed rate of return: 7.5%
Last year's rate of return: 6.9%
Unfunded liability: $21.8 billion

PERS' Bellotti problem

There's a public perception that PERS is in trouble because benefits are too generous. In fact, the average PERS retiree gets $2,362 a month — not a fortune, but together with Social Security and personal savings, usually enough to live securely and comfortably after a lifetime of work.

The way PERS calculates benefits is actually pretty simple: It multiplies an employee's final average salary by the number of years of service and then multiplies that by 1.67 percent for those hired before Aug. 29, 2003 (known as Tier 1 and 2 employees), or by 1.5 percent for those hired after.

For example, a 911 operator retiring tomorrow after 30 years, whose salary averaged $40,000 a year their final three years, would get a yearly benefit of $20,040, or $1,670 a month (40,000 x 30 x 0.0167).

But that formula also means that some public employee retirees who earned very high final salaries are getting very large pensions. The poster child for that is Mike Bellotti, who worked as head coach for the University of Oregon football team for 14 years, and now collects $536,995 a year in PERS benefits.

And his benefits aren't the only ones to raise eyebrows: 994 PERS recipients get over $108,000 a year in benefits. Most are top-level managers or doctors at Oregon Health & Science University. The 994 make up just 0.74 percent of the total recipients, but their lavish retirement payouts are galling to many taxpayers.

Going forward, there won't be any more Mike Bellottis — and not just because his 116–55 win record for the Ducks will be hard to beat. A 1996 federal rule change put a limit on the formula for calculating what is salary. The limit is now $265,000. Belotti is able to collect his outsized pension because he was hired *before* 1996.