Which Retirement System is Best? You be the Judge

Editor's Note: In March, E. J. Weathersbee, a member of Mercury Chapter 39 in Portland, wrote a letter to The OSEA News in which he discussed the Washington and Oregon retirement systems for public employes.

"It appears that Washington's Public Employes' Retirement System is much superior to that in effect in Oregon, and widespread knowledge of this fact would aid in getting a better retirement system installed in Oregon," he said. "It is respectfully requested that a detailed item by item comparison be made between the Oregon and Washington systems and published in the next issue of The OSEA News."

The detailed study requested by Weathersbee was undertaken by OSEA's Retirement Committee, headed by Ted Thompson, Astoria. Other members of the committee include Arthur Krichevsky, Portland, Mary Foster, Salem, and Paul Bernier, Corvallis. Jerry Liebertz, Portland, and Dennis Hayden, Salem are advisory members.

The study, which took several months to complete, appears below. It was sent to The OSEA News with the following comments by Thompson:

"During the past years, many comments have been made relating to a comparison of the Washington retirement system and the Oregon retirement system. Most of these comments were out of context, not factual, or behind the times. OSEA's Retirement Committee, therefore, elected to do an 'on site' study and report its findings to the membership."

"The results show Oregon ahead in some areas and behind in others. If someone could guarantee the future, I could tell him or her with assurance which is the better plan. But until predicting the future is possible, OSEA members will have to draw their own conclusions. The study does present them with some possibilities for the future. We could give up advantages we now possess to gain new benefits or increase benefits in other areas. I feel this study should help stimulate attendance at the chapter level. If I can help in this area, chapters or individual members should feel free to contact me."

In evaluating both systems, the following items were taken into consideration: (1) interest earnings, (2) termination, (3) death, (4) disability, and (5) retirement.

INTEREST EARNINGS

No single item has a more direct bearing on our financial life than interest. Many times the determining factor on whether or not we buy a home, automobile, etc., is the financing arrangement available and the rate of interest we are charged. Why do employes put savings in credit unions instead of banks? Because the interest paid on the money is higher.

Perhaps the following will serve to illustrate these points: At 3 per cent, money will double in 23 years. At 5½ per cent, money will double in 13 years. And at 7½ per cent, money will double in 9 years.

The State of Washington credits employe retirement accounts with a rate of 4½ per cent. The rate of interest in Oregon presently is 7.46 per cent. That should tell everyone something about the two systems. We will not go into detail about Oregon's Variable Annuity Program, which returned 13.87 per cent last year. That type of program is not available to employes in Washington.

Even if both states had the same rate of interest, employes in Oregon would receive a greater amount due to the basis on which interest is credited to employe retirement accounts. Washington credits interest quarterly on the previous quarterly balance. Oregon credits interest on the year-end account balance. Let us illustrate this point.

If an employe had $5,000 in his or her account on January 1, and contributed $50 a month, at the end of the year the account balance would be $5,600. At the present rate of 7.46 per cent, Oregon would credit the account with interest earnings of $417.76 for the year.

In Washington, at the rate of 4½ per cent on the previous quarterly balance, the interest earnings for the year would be $239.03, or a difference of $178.73.

With approximately 86,000 accounts, it is apparent that the Oregon retirement system is giving its members millions of dollars of interest earnings in excess of what is given to public employes in the State of Washington.

In addition, our neighboring state to the north charges each account $2.50 a year. We do not have any such "handling" charge in Oregon.

What happens to the interest that is earned but not paid to members of the Washington retirement system? Those earnings are used to meet the obligation of the system to pay for the various benefits enjoyed by its members.

In other words, if you were a member of the Washington retirement system a portion of your interest earnings would be used to pay increased benefits to someone else with the expectation that when you retired someone else would do the same for you. Unless you actually retired, however, the money would be lost.

If we in Oregon agree with that philosophy, we should eliminate the Variable Annuity Program since all earnings in excess of 4½ per cent would revert to the state and not increase our benefits.

Last year the Oregon system made refunds to over 8,000 of its members. The Washington system issued refunds to more than 13,000 of its members. The Oregon members received their full share of interest earnings, while the 13,000 Washington members were "short changed" because a share of their interest earnings went to benefit someone else. Needless to say, we do not like this concept, and we like it even less when we see what could happen to an employe who dies prior to retirement.

DEATH

Unfortunately, some of us will die and not reap the benefits of our retirement program.

In Washington, the beneficiary receives a refund of the member's account balance. There is no benefit from the state.

In Oregon, the beneficiary receives a refund of the member's account balance **plus** an equal amount from the employer. Since the account balance includes interest earnings, the death benefits in Oregon are tremendous when compared to Washington.

Both states grant the beneficiary (if a spouse) the right to elect to receive monthly benefits in lieu of a lump sum payment. In Oregon that benefit is available to any spouse. In Washington the employe must have been a member for ten years.

The monthly benefit in Washington is generally larger than in Oregon, but studies show that a double lump sum refund (which is given in Oregon) invested at 6 per cent probably would be a greater benefit in most cases.

DISABILITY

Both states offer disability benefits for "on" and "off" the job disabilities. However, there are marked differences in requirements and payments, which we will examine closely.

In Washington, "on" the job disabilities pay two-thirds of salary with a maximum of $350. That benefit is reduced by whatever the member gets from the State Accident Insurance Fund. Under these conditions many employes with a "duty" disability in Washington do not receive any payment from the retirement system. In addition, at age 60 th member goes "off" disability and reverts to his or her regular service retirement at that age.

In Oregon, "on" the job disability payments are not affected by what the member receives from SAIF (with the exception of policemen and firemen). In such cases there is no ceiling and the benefit is probably higher in Oregon. Payments continue for life and do not revert at age 60 to a service retirement.

Washington requires only five years of membership in the retirement system for "off" the job disabilities. Oregon requires ten years. In Washington, however, the member must be **totally and permanently** disabled. In Oregon, the member could hold parttime employment and still receive benefits each month.

No survivorship options are available in Washington, whereas Oregon does provide for survivorship benefits. Since many disabilities radically reduce life expectancy, the Oregon Program is much more attractive than the Washington program.

RETIREMENT

There is quite a difference in the computation of retirement benefits in each state. Even the philosophy behind the programs is different. The key to the differences is **what happens to** and **who receives** the interest earnings of the retirement funds.

To illustrate this point, we will use the account of Ted Thompson, director of OSEA's Retirement Committee. He has been a member of Oregon's PERS for about eight years and based on his salary would contribute at six per cent in either program. Interest earned by his account in Oregon presently amounts to $527.44 a year. In Washington, interest earnings would amount to $292.34 a year, or a difference of $235.10 a year.

In less than 10 years, with increasing account balances, that could represent a difference of well in excess of $4,000. For career employes with 20 or 30 years of service, the difference rises to nearly $10,000. The figures quoted are based on present rates of 7.46 per cent in Oregon and 4.5 per cent in Washington.

When one considers the Variable Annuity Program and the rates involved, the difference could be astronomical. These figures become more important when one considers the Oregon provision that the pension cannot be less than the annuity.

We will use a few illustrations to help explain the differences in each program.

In the first illustration, consider an employe who retires after 30 years of service at age 60. If we use a constant salary of $1,000 a month, his contribution to both programs would be the same.

In Washington, under the Refund Annuity Plan, the employe's monthly benefit would be $600. Under the Refund Annuity Plan in Oregon, the monthly benefit would be $843 if interest earnings were only 5½ per cent, or $1,218 if interest earnings remained at 7.46 per cent.

Since the above illustration does not provide for any salary increase, it would apply to higher paid employes who do not experience much salary progression, or to employes who terminate prior to retirement and leave their funds in the system to receive monthly benefits at time of retirement.

Let us now consider the example of an employe who retires at age 60 with 30 years of service who started employment at a monthly salary of $700 and received a three per cent pay raise each year.

In Washington, his monthly benefit under the Refund Annuity Plan would amount to $975 at age 60. In Oregon, his monthly benefit under the Refund Annuity Plan would be $842 at age 60 if the rate of interest credited to accounts was 5½ per cent. If the rate of interest remained at 7.46 per cent, the monthly benefit under the Refund Annuity Plan would amount to $1,060.

If the employe had 30 years of service and was 65 years of age, his benefit in Washington would still be $975 a month. In Oregon, however, it would be $876 at age 65 if the rate of interest was 5½ per cent, and $1,181 if the interest rate remained at 7.46 per cent.

We have used the Refund Annuity Plan in making these comparisons because it is the automatic plan in each state. However, the mechanics are quite different since Washington reduces the employe's account balance by the total amount of the monthly benefit check, whereas Oregon reduces it only by the amount of the annuity.

For example, in Washington the employe's account is reduced by $975 each month. In Oregon, the reduction would only be $543 in the case of the monthly benefit of $1,181.

Both the Washington and Oregon programs have a cost of living provision. The maximum benefit in Washington is 3 per cent. It is 2 per cent in Oregon.

SUMMARY

In summary, employes who terminate and request refunds of their accounts, employes who die in service, and employes who became disabled generally are much better off under the Oregon program than the Washington progam.

Long-term career employes retiring after age 60 probably are better off under the Oregon program. Short-term employes and long-term career employes retiring prior to age 60 probably are better off under the Washington program.

It is the hope of the Retirement Committee that this study will help OSEA members to evaluate both programs. Rest assured that the Association will continue to seek improvements in the retirement system, but will not be "bulldozed" into giving up present benefits to gain benefits for a select group.

This report could not have been completed without the assistance of the entire Retirement Committee. Special thanks go to Jerry Liebertz, who went to Olympia to do the "on site" analysis of the Washington Program.