Governor's Task Force shows compensation "at market"

State government, on average, pays its employees slightly below market and this lag will increase with no comparable wage increase as found in the private sector. Health benefits are somewhat more generous than comparators but provided at less cost per worker, and retirement benefits are more generous.

Those are the conclusions of the Governor's Task Force on Employee Benefits made public in July, though you wouldn't have gotten that idea reading the daily newspapers or listening to reports on television.

INSURANCE BENEFITS

• The total benefit plan for state employees and their families combined provides reasonable health care and other insurance benefits that are generally available to employees of Oregon medium and large private employers and other Oregon public sector employers.

• The premium cost and the employer cost of health care and other insurance benefit premiums to state employees and their families is comparable to, *or less than*, Oregon's medium and large employers.

In conclusion, the committee said it was satisfied that insurance premium costs and benefits are appropriate for state employees. While state employees pay a smaller share of the premium costs than private sector employees, the employer contribution toward benefits is comparable to most employers.

SALARY AND WAGES

Total compensation for state employees in 1994 is generally market competitive for all groups except professional/technical and management positions which are below market.

• Average salaries are slightly below market.

Given no increase to state wages as opposed to the private sector (where they are projected to increase 4% per year through 1997), state pay will lag behind the private sector.

• *If Ballot Measure 8 passes, state pay will be significantly below market.*

PERS

The task force made a number of recommendations with respect to PERS, some of which would violate collective bargaining rights, assume Oregon to be isolated from events happening nationally, or ignore points they made elsewhere in their report. For example, the Task Force recommended:

• Removing the employer pickup or some portion of it from the retirement benefits and transferring it to salary in the form of pay for performance, given that total compensation is competitive.

This change would put pay below the market. Furthermore, this change would have to be done through the bargaining process.

• Establishing a two-tier pension system for new employees.

Unless total compensation is outside of market guidelines, any reduction in compensation must be accompanied by increases in other parts.

• Keeping the cost-of-living allowance even though they described it as a significant additional benefit.

Cost-of-living provisions have been provided in retirement programs for more than 40 years. The 2% annual increase in PERS is less than adequate for allowing a retiree to maintain his or her standard of living.

• Exploring a revision of the role of the PERS board and its makeup.

The board does not establish the benefit level; that is set by the Legislature. No case has been established that the PERS board has done an inadequate job.

• No increase in post-retirement medical benefits until broader national health care issues are more clearly resolved. This recommendation ignores the fact that national health care issues may not be clearly resolved for more than a decade, a length of time which would place an unreasonable restriction on the benefits of public employee retirees.

• No increase to PERS benefits if contract rights prevent redesign of the retirement plan for current employees.

Once again, a recommendation that ignores the current situation. The only significant change in retirement law since 1991 was the enactment to tax benefits earned after September 21, 1991. This amounted to a 9% reduction in benefits for individuals first employed after that date and a lesser reduction for all employees who worked after that date.

• Removing unused sick leave from the retirement calculation, increasing the number of years included in the final average salary, and other changes necessary to make the full formula plan generate a replacement ratio of 70% to 85% including Social Security.

If these proposed changes are made, the pension benefit would fall well below the 70% to 85% of preretirement salary recommended by retirement specialists. Once the full formula computation becomes the principal system, which will occur without additional legislation, the system will be inside the recommended ratios.

• Considering moving to a defined contribution plan and then moving the employer contribution amount to the bargaining table.

No case has been made for the advantages of a defined contribution plan other than it is more commonly used in the private sector. In reality most of us are not qualified to make good investment decisions and if maximum benefits are going to be obtained, a good investment service must be provided.

The recommendation to place the amount of the employer contribution at the bargaining table could cause enormous administrative problems as employees in every bargaining unit would be contributing at different rates and the retirement system would find it difficult if not impossible to make benefits predictions to various members of the system.

• Excluding the Legislature from the PERS system.

The compensation level of the Legislature was not reviewed by the committee. No recommendations should be made on part of a compensation package without review of the total package.

Poorly-reported Wyatt Report adds to murkiness

A second report on PERS benefits was produced by the Wyatt Company. Unfortunately, premature and ill-considered reporting had to be corrected to set the record straight.

Here are some facts from the Wyatt study:

• The Wyatt Company Report points out that the "pickup" saves taxes for Oregonians.

• The pickup is "standard and smart," demolishing the assertions of public employee critic and state Representative Bob Tiernan, R-Lake Oswego, that the pickup is "unheard of" or "unusual."

• The Wyatt Company Report looks at the PERS pickup in two ways. 1. When you treat the 6% pickup as an employee paid benefit—which it is—Oregon is 15th of the 35 plans examined. 2. When you look at it as employer paid, Oregon is at #3.

• Representatives from the Wyatt Company told the PERS Board on June 14 that it is "highly legitimate" to consider the pickup as an employee contribution. This echoes an Oregon Attorney General's opinion which says that the 6% pickup is an employee contribution. The effect of considering the pickup this way belies a June 14 Eugene *Register-Guard* headline which said "State retirement plan best in the West." Figured this way, we're 15th of 35 plans.

• Oregon PERS looks more lavish than it really is compared to other states because, in one of its "judgment calls," the Wyatt Company chose to compare Oregon's plan with a new, second-tier California plan, even though they admitted 80% of California public employees covered by CalPERS are in the older, higher-benefit plan.

• *The Oregonian*, in its Tuesday, June 14 account, left out a crucial piece of information when it said "public employees with 30 years of service receive incomes of about 96% of their final pay — about $43,000 annually."

That is only true (as a footnote in the report that did not make the paper said) for an employee whose final salary was $45,000 — far above the $29,953 average salary for Oregon public employees. Also, the $45,000 a year employee only got that return from the "money match" — a temporary benefit resulting from high stock market returns of the past 12-15 years. At the full formula method, this worker would retire at only $36,090 (including Social Security) — or 80% of salary, well within the 75% to 85% of preretirement income PERS and other financial counselors believe necessary to maintain a standard of living.