The Public Employees Retirement System has had a history of funding challenges. Currently with the large number of retirees in the system, the unfunded liability is reaching a critically high level. This document outlines a two-part PERS Realignment Strategy intended to reduce the unfunded liability in the near term and ultimately change the funding trajectory so the unfunded liability is eventually eliminated.

PERS Realignment Strategy for Oregon

Medford Jackson County Chamber
Legistlative Action Team
PERS Realignment and Revenue Sub-Committee

Committee Members:
Jessica Gomez, Rogue Valley Microdeivces
Bruce Hoevet, ReMax Ideal Brokers
John Watt, JWA Public Affairs
Leigh Johnson, Leigh Johnson Consulting
Jason Stranberg, Adroit Contruction
Sid Deboer, Lithia Motors

Contributor:
John Warekois, Rogue Valley Microdevices

Overview

The Public Employees Retirement System's $21.8 Billion dollar unfunded liability is a problem we cannot afford to ignore. This document proposes a two-part strategy for managing this debt. State government, schools, cities, and counties in Oregon face extraordinary operational cost increases, driven by the need to finance unfunded pension liabilities that have accumulated in PERS since the Great Recession of 2008. These costs will continue to consume a larger share of public budgets, diverting funds necessary to provide services, even as the economy continues to deliver revenue gains in excess of inflation and population growth. Realigning the Public Employee Retirement system will ensure that our commitment to retirees does not come at the expense of vital services such as education, health care, and safety net programs for at-risk families.

PERS Realignment Strategy 1: Implement a voluntary Accelerated Disbursement Option (ADO) Program for those retirees already receiving or scheduled to receive PERS benefits

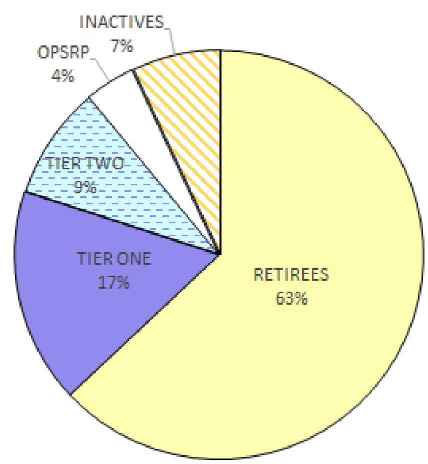
PERS Realignment Strategy 2: Implement a series of seven policy adjustments to the existing PERS structure in order to strengthen the retirement system for future retirees.

PERS Realignment Strategy 1:

PERS Accelerated Disbursement Option

PERS Actuarial accrued liabilities

Before PERS reform in 2003, PERS' liabilities were growing by about 12% annually. Reform reduced liability growth to an expected average of 3 to 4% annually over the long-term, which is close to the system's annual inflation rate assumption of 2.5% (for the December 31, 2014 and December 31, 2015 valuations). Approximately 70% of PERS' total accrued liability is for members who are no longer working in PERS-covered employment (retirees and inactives). As a result, more than 40% of an employer's total contribution rate is associated with these groups. **(PERS: By the Numbers - April 2016)**



There is some thought that perhaps encouraging many of these PERS recipients to participate in an ADO (Accelerated Disbursement Option) program would help to minimize the growing PERS unfunded liability. The Accelerated Disbursement Option would provide PERS Tier 1 recipients the opportunity to receive a lump sum disbursement based on a predetermined formula. This option will be funded by a revenue bond or state revenue package and would only be available for a limited time frame.

The following illustrates the concept and its potential impact on the PERS liability:

PERS Accelerated Disbursement Option (ADO) based on 2015 data

Tier1 Active (T1A)		
Current Age (CA)	66	years
Retirement Age (RA)	62	years
Average Annual Benefit (AB)	$29,720.00	
Estimated Remaining Benefit Period (RBP)	8	years
Estimated Accelerated Disbursement Payout Period (ADP)	6	years
Estimated Accelerated Disbursement Participation Rate (ADR)	20.0%	

Tier1 Eligible (T1E)		
Current Age (CA)	58	years
Retirement Age (RA)	62	years
Average Annual Benefit (AB)	$32,097.60	
Estimated Remaining Benefit Period (RBP)	12	years
Estimated Accelerated Disbursement Payout Period (ADP)	8	years
Estimated Accelerated Disbursement Participation Rate (ADR)	25.0%	

Tier1 Inactive (T1I)		
Current Age (CA)	60	years
Retirement Age (RA)	62	years
Average Annual Benefit (AB)	$29,720.00	
Estimated Remaining Benefit Period (RBP)	12	years
Estimated Accelerated Disbursement Payout Period (ADP)	8	years
Estimated Accelerated Disbursement Participation Rate (ADR)	25.0%	

	Current Liability	Remaining Liability After ADO
Tier1 Active Recipients	134,323	107,459
Tier1 Eligible Recipients	19,037	14,278
Tier1 Inactive Recipients	9,446	7,085
Tier1 Active Recipients	$31,936,636,480.00	$25,549,451,840.00
Tier1 Eligible Recipients	$7,332,504,134.40	$5,499,474,393.60
Tier1 Inactive Recipients	$3,368,821,440.00	$2,526,794,400.00
Annual Grand Total Active And Future Retirees	$42,637,962,054.40	$33,575,720,633.60
Average Tier1 Active ADO Amount		$178,320.00
Average Tier1 Eligible ADO Amount		$256,780.80
Average Tier1 Inactive ADO Amount		$237,760.00

Current Actuarial Unfunded Liability	$21,800,000,000.00
New Actuarial Unfunded Liability	$12,737,758,579.20
Total Bond Required For ADO	$6,574,049,734.40
Bond Amortization Years	30
Annual Debt Service Total	Requires further review
Annual Debt Service Principal	Requires further review
Annual Debt Service Interest	Requires further review

As can be seen from above, the longer this liability remains unfunded, the larger the accumulative impact it will be on future fiscal years. An effective ADO program will help to minimize the impact on current and future Oregonians. The total cost of the cash disbursement including administration is targeted to be under $7B.

Tax Policy for PERS Accelerated Disbursement Option Volunteers

No doubt most, if not all, of the former PERS employees understand the issue and are conflicted with how to help without putting hard earned benefits in jeopardy. With an effective ADO program in place, there could be several options that would allow existing Tier 1 PERS recipients to become heroes to future generations of Oregonian's. We are envisioning that these heroes will receive public recognition from the Governor as well!

Here are some of the plan highlights:

- ADO volunteers will receive a lump sum payment of their PERS account, based on Present Value. This payment from a "Qualified Retirement plan" have many options:
    - Rolled over into a personal IRA to avoid taxes and invested as they wish.
    - They can use, some or all, of the funds for personal use such as paying off bills, pay off a mortgage, start a business or use it to make other investments. This option would create taxable income, so ADO volunteers would need to consult a tax advisor.
- The State, thru tax legislation would set up a tax credit program like the Oregon Cultural Trust, whereby donations to the PERS ADO program would qualify donors for tax credits should the donor make a matching contribution to a School District enrichment program such as music, art or theater. This program would also be available to Oregon Residence and Businesses. Corporations are very interested in these types of programs and it would be a welcome change to many corporate tax departments from recent legislation.

- Additionally, the IRS has tax benefits that allow some individuals to donate up to $100,000 of their IRA (possibly an ADO volunteer that has rolled over their IRA) to an organization without creating taxable income. While this doesn't qualify for a federal charitable donation, the State can make it qualify for an Oregon State Donation or credit thru legislation.

- A 30-year State Bond that would be created to finance the ADO is a very attractive investment as it offers the opportunity for tax free income, should the individual reside in the state of Oregon. The opportunity to invest first in this would be made available to ADO volunteers.

In conclusion implementing an Accelerated Disbursement Option program offers a significant benefit to both participants and the state.

PERS Realignment Strategy 2:

Seven policy adjustments to the existing PERS structure

There is considerable concern about implementing further adjustments to the existing system, and whether those adjustments would be constitutional. Three main documents were evaluated to compile this list of seven policy recommendations for the PERS Realignment Strategy 2 that are considered constitutionally sound.

1. Leadership Summit Discussion Draft, December 5, 2016, Oregon Business Plan **Proposal for addressing the PERS funding Challenge**

2. Letter From Katherine J. Durant to Governor Kate Brown December 5, 2016

3. Press Release from Senator Tim Knopp Senate District 27 and Senator Betsy Johnson Senate District 16 - **Legislators Release Legal Opinion on Constitutionality of Possible PERS Solutions**

The following seven recommendations represent the most impactful and legally viable policy adjustments currently being evaluated both legislators and business organizations. All Policy adjustments (except recommendation five) would be applicable to prospective PERS benefit recipients.

PERS Realignment Policy Recommendations

1. All elected officials and judges should be moved to a 401K program to which they must contribute. This will help alleviate one of the conflicts of interest for those in decision making roles.

2. Public Employee COLA increases should be suspended until PERS reaches a 90% funded status. This will help control cost until the PERS system has been properly funded.

3. Disallow future use of unused vacation and sick leave as part of final average salary (FAS) when calculating an employee's PERS benefit.

4. Calculate final average salary (FAS) over the last 10 years instead of 3 years.

5. Reduce the annuitization rate for Money Match from 7.5% to 3.5% (or market rate).

6. Cap the final average salary (FAS) calculation at $100,000.00 per year.

7. Redirect future employees Individual Account Program (IAP) contributions to PERS. This will allow employees to play an active role in insuring the health and survivability of the Public Employees Retirement System.

Summary

The citizens of the State Of Oregon collectively need to solve this problem. It will continue to worsen as time goes on if nothing is changed. Our duty as community leaders is to put the interests of All Oregonians ahead of those of the special interests, and lead when others fail to do so. Realigning the Public Employees Retirement System will ensure that our commitment to retirees is upheld without coming at the expense of vital state government services. We need to solve this problem in a comprehensive way, without advancing a partisan, anti-union, or anti-business agenda.