



-10 Amendment to SB 560 PUBLIC EMPLOYEE CONTRIBUTIONS

Testimony for Senate Committee on Workforce Dr. Edith Rusch

April 12, 2017

Chair Taylor, members of the Senate Committee on Workforce,

After listening to weeks of testimony and investing many hours in our own research, Tax Fairness Oregon concluded that, in order to sustain a quality public pension system, PERS requires some challenging changes. Many TFO volunteers are or have been public employees so we understand the angst of the firefighters who sacrificed off-duty time to attend these long sessions and the teachers who prepared detailed charts to show the retirement consequences of your decisions. Listening carefully to all sides, we developed the following criteria for our suggestions.

- Modest adjustments that retain a quality public workforce.
- Adjustments that meet criteria established by Moro.
- Maintaining a pension plan that supports, values, and respects public servants.
- Increasing equity among the three plans—Prospectively, bring the benefits of Tiers 1 and 2 more in line with OPSRP members.

After reviewing SB 560 and all of its amendments, we think the -10 amendment offers reasonable and fair solutions for stabilizing the PERS system over time. We do not claim to have the expertise of our PERS administrators but we offer these observations based on extensive study of healthy public pension systems nationwide.

- **Multiplication Factor:** Only 3 states in the nation have a multiplier as low as those listed in the -2 amendment. In fact, the most common multipliers match the current OPSRP system. OPSRP is a solid plan—it is sustainable, affordable, and offers reasonable retirement benefits supplemented by Social Security. The amendment does not specify a percentage of FAS and we would encourage legislators to retain the current OPSRP NUMBERS. A dramatic reduction in the multiplier is one of those factors that could trigger massive early retirements, thus depleting our public workforce and increasing the UAL.
- **Calculation of Final Average Salary:** Removing vacation pay and sick leave from FAS will increase equity among employees in the three plans. Using 5 years to calculate FAS is also a common adjustment to systems across the country.
- **Assumed Interest Rate:** Section 10 maintains the authority and flexibility of the PERS board to make decision in consultation with expert actuaries. TFO strongly supports this change from the -3 amendment.
- **Employee 6% Contribution to PERS:** We struggled mightily with the PERS/IAP/Pick-up issues. If we have interpreted Sections 12, 16 and 17 correctly, we think the authors of this amendment have crafted a workable adjustment to the most confounding issues confronting the longevity of PERS. Pending accuracy of our interpretation, we support-

- Ending the employer pick-up; this change can stabilize local budgets and diminish the constant lurch between hiring and layoffs!
- Adjusting employee contributions to the PERS account based on the Funded Ratio of the system. This change matches the flexibility in some of the most stable pension systems in the country and appears to maintain IAP accounts.
- Making provisions for differential member contributions for Tier 1 &2 and OPSRP members. TFO strongly supports this change.

The -10 amendment will, no doubt, affect the bottom line of IAP accounts and may lead to early retirements for some, but we suggest these decisions are not just about retirement funds. Bringing additional stability to the PERS system is about the working conditions in our public entities and the welfare of our communities. Keeping the status quo will affect class sizes, will cause layoffs, will reduce city services and keep our valued public agencies from fulfilling their core missions.

Summary

Tax Fairness Oregon concludes that without some changes to the structure of PERS plus changes to the structure of Oregon's revenue streams, the issue of PERS and a budget shortfall will reappear after every economic downturn.