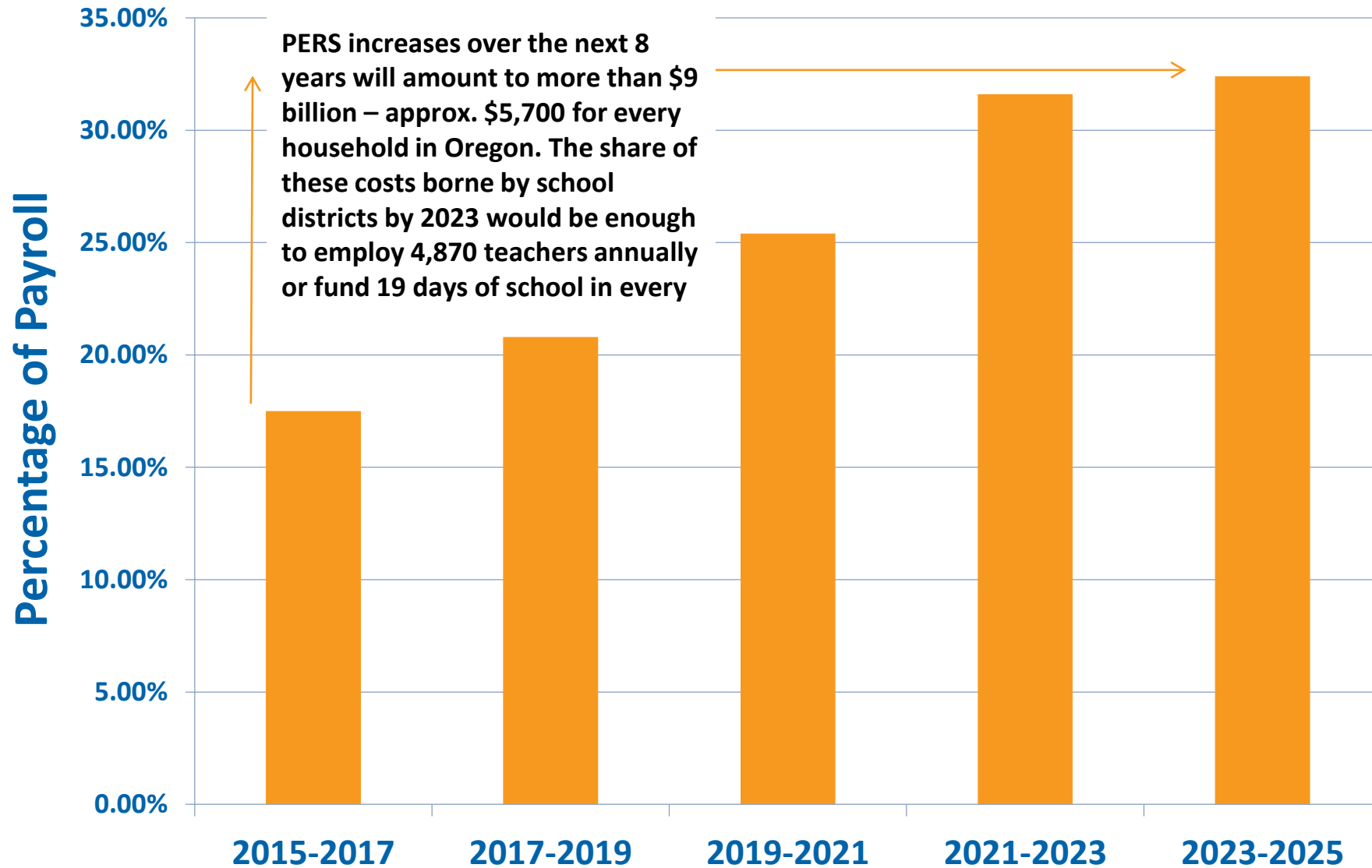


## PERS Reform

Goal: Mitigate impact of scheduled PERS rate increases on budgets and services

K12 Schools/State Government  
Community Colleges & Universities  
Cities/Counties/Special Districts

# Projected PERS Employer Rates



# PERS Costs: The Next 8 Years

Total INCREASE ABOVE 2016-17 over the next 8 years:



**\$9+ Billion**

K12 Schools	<b>\$2.9 Billion</b>
State GF	<b>\$1.2 Billion</b>
State Other	<b>\$1.4 Billion</b>
Cities/Counties/CCs/Universities	<b>\$3.5 Billion</b>

*These are funds that will be diverted from budgets and services.*

# Impacts of PERS Costs: K12



- Each 1% of payroll in K12 = \$66 million/biennium

By 2023, the share of increased PERS costs borne by school districts will amount to what it costs to:

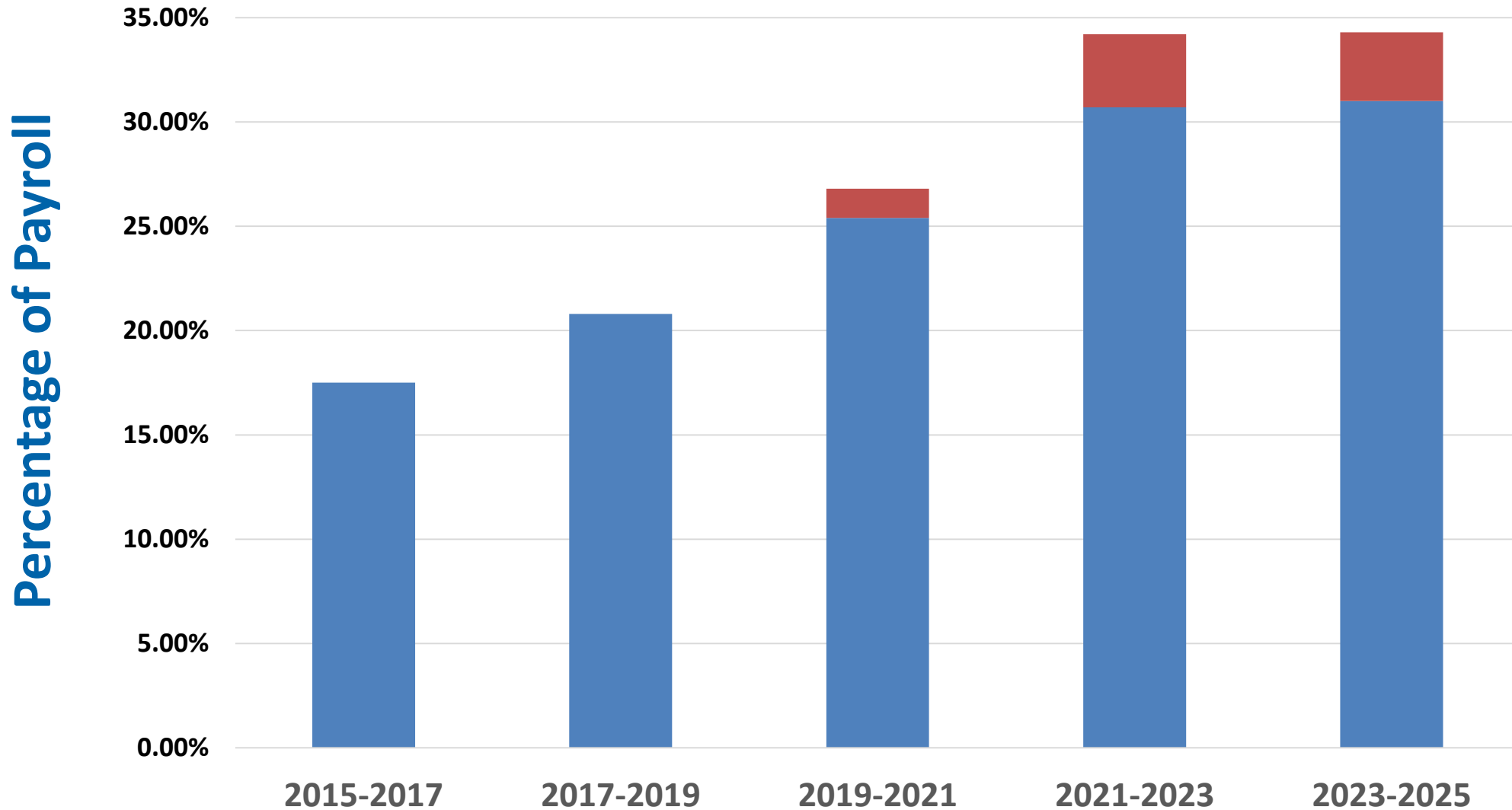


4,870 teachers



19 days of school

# We may be chasing a rising target: Projected PERS Rates at 7.5% and 7% Earnings



# *If we do nothing...*

- Not just adverse impacts on services, but...
- Adverse impacts on employees
  - Layoffs and reductions in staffing
  - Increased workloads
  - Constraints on funding to keep salaries aligned with the larger labor market

# *Employees have a stake in reform*

- Employees should participate in the solution – in proportion to their share of the cost increases we're facing
  - To ensure their pension benefits are funded
  - To maintain staffing levels
  - To help keep salaries competitive

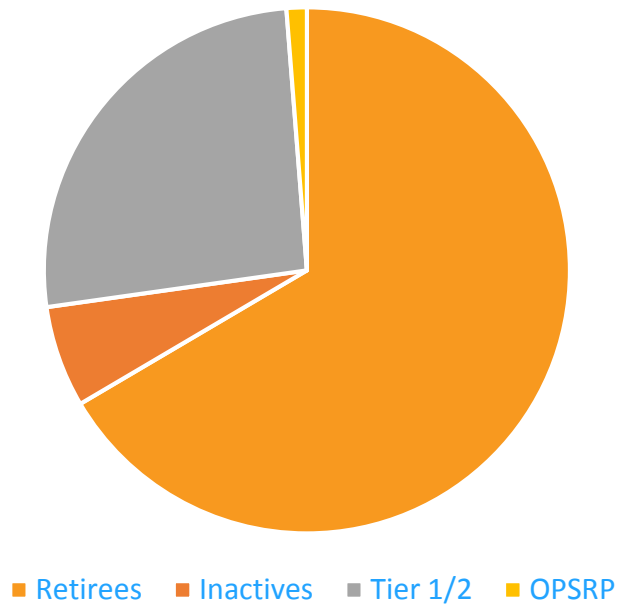
# *Moro* decision clarifies what can be done

- Keep the promise for benefits earned to date, but:
- Changes may be made going forward:
  - Benefits to be earned in the future are (with limited exceptions) modifiable
  - Employee contributions may be established for pension benefits going forward.



# Current employee benefits remain underfunded

But are only 30% of the total Unfunded Liability  
= 6 points of payroll



# Principles for Reform

- ❑ Identify reforms to be shared by employees that do not exceed 6 points of payroll
- ❑ Recognize the differences in benefits and costs between Tier 1/2 and OPSRP employees.
- ❑ Avoid reductions in employee take-home pay.

# A Tale of Two Pension Plans: Normal costs for Tier 1/2 are nearly twice those of OPSRP

Pension Costs (Excluding UAL) as % of Payroll



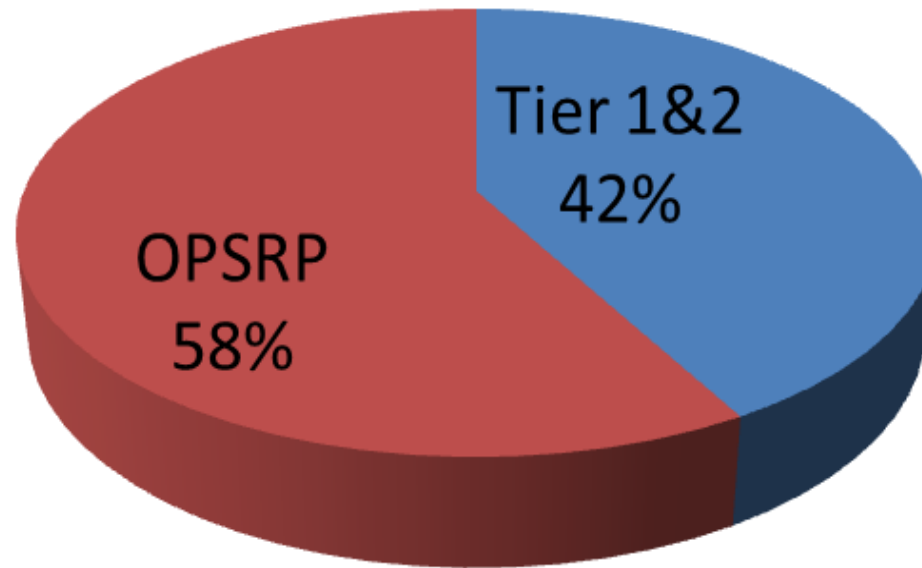
# Equity Issue: Reforms should focus on Tier 1/2

- OPSRP is an adequate plan for employees and more affordable for taxpayers
- OPSRP is better than Washington State's teachers' plan

	% Salary per Year of Service	Final Average Salary	EE Contribution to Supplemental Savings
Oregon PERS OPSRP	1.5%	3 years	6.0% fixed
WA State Teachers	1.0%	5 years	5.0% minimum

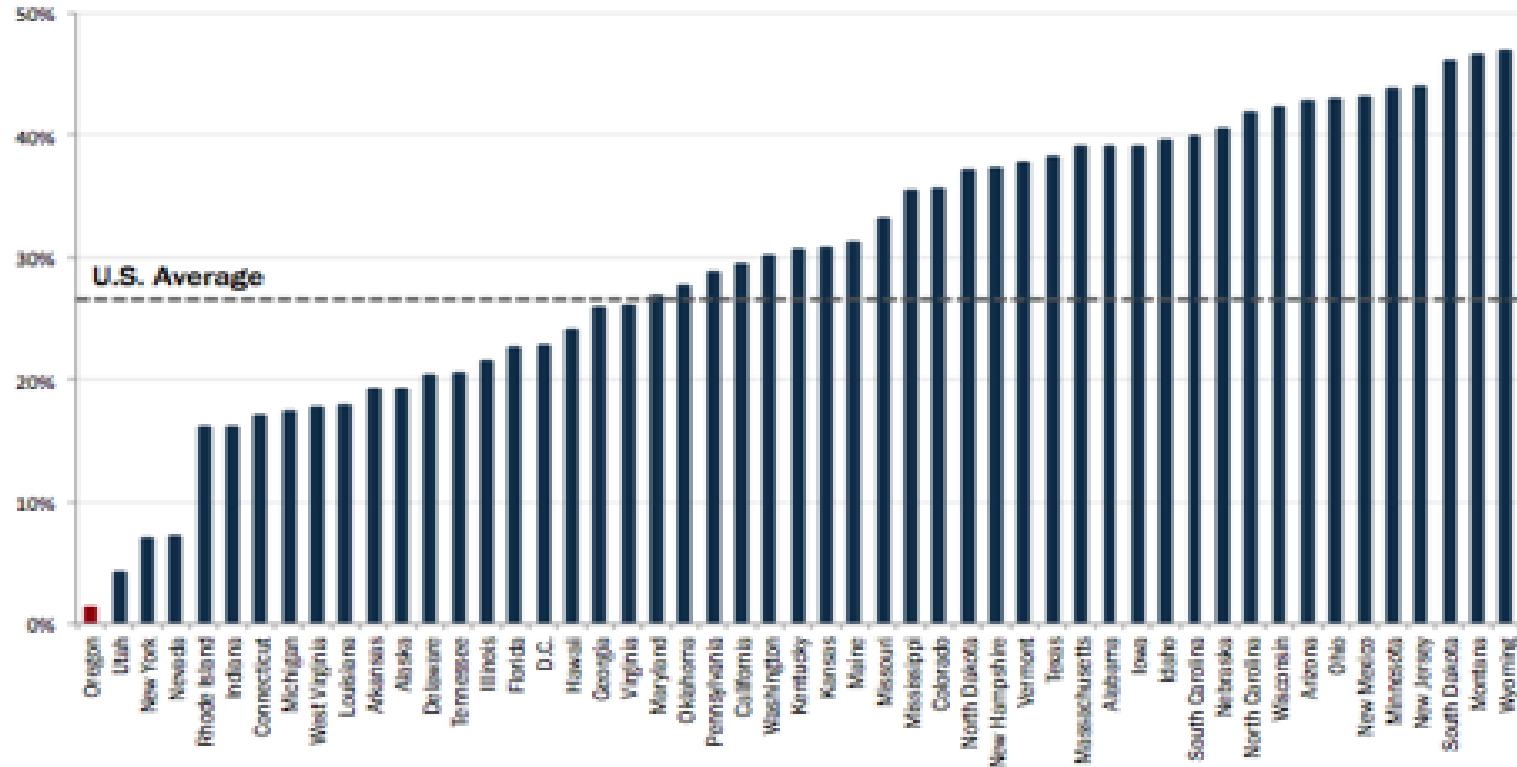
Tier 1/2: 42% of workforce, 50% of payroll

### Oregon PERS Members Still Working



# Employee contributions: Oregon is an outlier

Employee Share of Contributions, State and Locally Administered Defined Benefit Pension Systems, FY 2014



# Policies

- **Equalize benefits for employees hired before and after 2003** – Move pre-2003 Tier 1/2 employees to a benefit structure for future service that is closer to the post-2003 OPSRP benefit structure.
- **Reinstate employee cost-sharing** -- Establish new employee contribution to PERS (in addition to the IAP) for all employees. Contributions could be tiered based on income level and/or status (Tier 1, 2 OPSRP).

# Cost Savings

- Prospective benefit adjustments for Tier 1/2 employees will bring them closer to the benefits and costs of OPSRP employees (those hired since August 2003)
  - ✓ Could reduce employer State GF and K12 payroll costs by \$74M/biennium for a full biennium
- Employee contributions to the pension plan can yield close to 1:1 cost savings.
  - ✓ Requiring a 6% contribution for Tier 1/2 employees and 4% for OPSRP would reduce employer costs by 5% (\$470 M full biennial State GF & K12 impact).



# Cost Savings

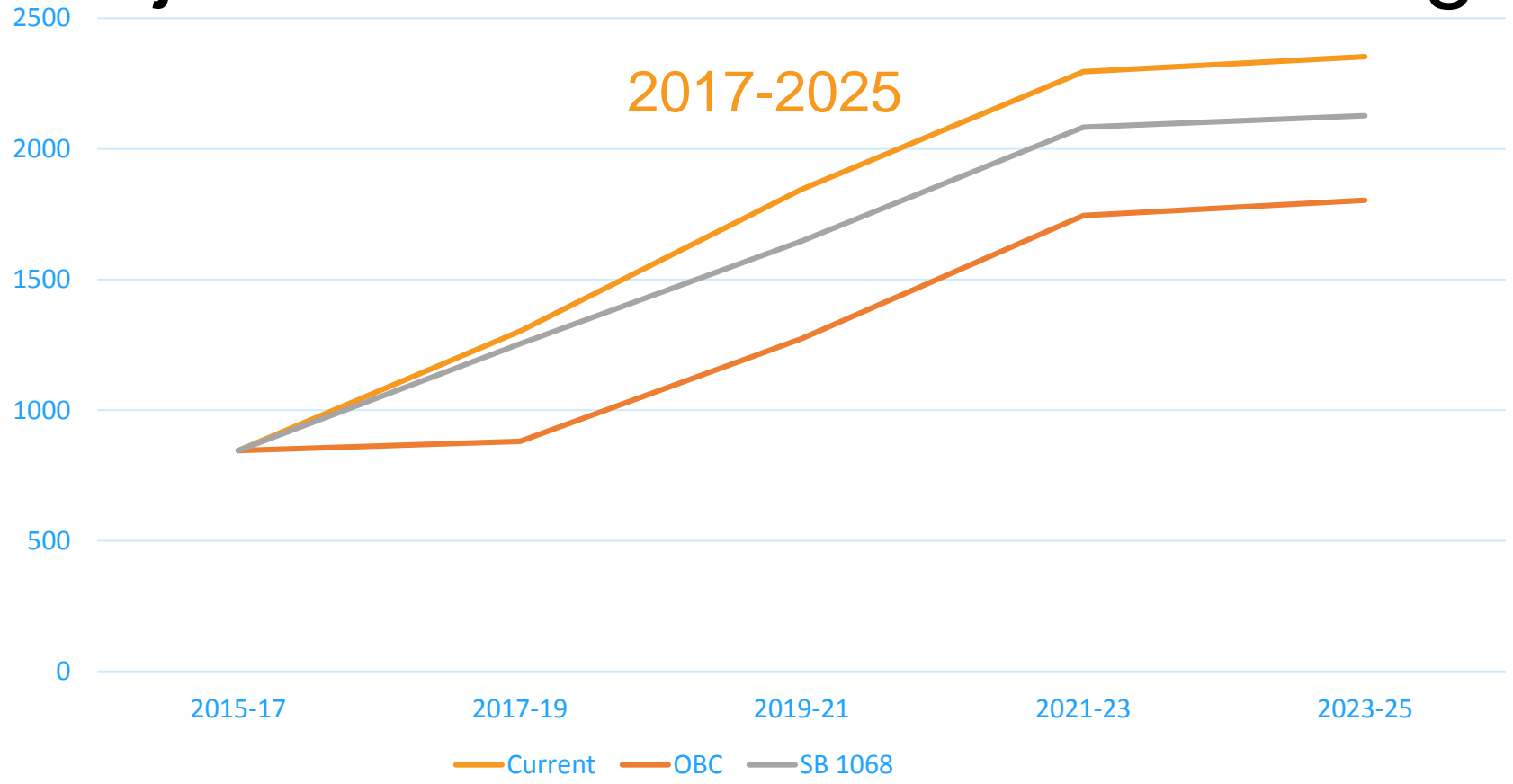
Reform Options If effective 1/1/18	GF Savings 2017-19 (Including K12)
1. Prospective Benefit Adjustments to bring Tier 1/2 benefits and costs closer to OPSRP. <u>Note: These affect Tier 1/2 only and are prospective only</u>	
a. Reduce MM annuitization rate to 3.5%	\$16 M
a. Eliminate unused vacation & sick leave	\$12 M
a. Reduce multiplication factor to 1.0% and 1.2% (P&F)/year	\$20 M (Est'd)
a. Establish 5-year Final Avg Salary	\$7 M (Est'd)
<b>Total</b>	<b>\$55 M</b>
2. Establish employee cost-sharing	
a. Set Tier 1/2 employee contribution rate at 6%, OPSRP at 4%	\$407 M
<b>TOTAL ALL CHANGES</b>	<b>\$462 M</b>

# Impact of Cost Savings

- 2017-19: Employer Costs reduced by
  - \$284 M K12 = 5+ days of school per year
  - \$123 million State GF/LF programs
- 2019-21: Employer Costs reduced by:
  - \$400 M K12 = 8 school days per year
  - \$172 M State GF/LF programs

Effects Over Next 8 Years

# Projected PERS Costs and Savings



# Recommendations

- ✓ Goal: Mitigate impact of scheduled PERS rate increases on budgets and services.
- ✓ Objective: Reduce the PERS payroll cost increases borne by employers by 5.8% of payroll
- ✓ Equity: Recognize the differences in benefits and costs between Tier 1/2 and OPSRP employees.
- ✓ Compensation: Avoid reductions in employee take-home pay.