To: Senate Finance and Revenue Committee
900 Court St NE
Salem, OR, 97301

Fr: Douglas C. Crummé
7350 N.E. Sunflower Lane
Corvallis, Oregon 97330

March 29, 2013

Re: **PERS LEGISLATION ALTERNATIVES**

Dear Senate Finance and Revenue Committee

I have worked for the State of Oregon for 35 years. I am speaking here only for myself and not on behalf of my agency. The current proposals to cut the PERS COLA could eventually drastically slash the real value of pensions for retirees who made careers with their PERS employers and so built up larger pensions. This is because of the proposals' tiered structures and the insidious compounding effect of falling behind inflation. An accountant has advised me that, compared to the existing two-percent COLA, a retiree would, over a 30-year period, lose 23 percent of any portion of their pension that receives no COLA. In fairness, we should consider all reasonable alternatives to eliminate or minimize such an impact.

Reasonable alternatives to pension cuts in order to balance public employers' budgets include financing, tax increases, and other spending cuts.

Financing

"Rate collars" and other financing methods would be reasonable, highly timely alternatives to pension cuts.

I am no actuary, but recent investment trends suggest to me that PERS employers might ultimately need to contribute significantly less than is currently being discussed in order to make the PERS fund whole.

The October 26, 2012, *Milliman Actuarial Valuation* for PERS is based on assumptions from data on December 31, 2011. PERS investment returns were weak in 2011. That was an aberration though. According to PERS, in the four years through January 2013, the fund's regular account grew at an annual rate of 13.34 percent. The fund's variable account grew even faster. (See enclosed).

The media cite that the PERS fund lost $17 billion in the 2008 financial collapse. However, *Milliman* at pages 7 and 8 reported an end-2011 PERS accrued liability of about $61.7 billion and a PERS fund market value of about $51.4

billion, for an unfunded difference then of about $10.3 billion. PERS' reports show that the fund subsequently grew by about $6.6 billion between January 1, 2012, and January 31, 2013. (See enclosed). So is not the unfunded actuarial liability over the next 20 years now more like $3.7 billion?

Such growth offers guarded optimism that the PERS fund can become whole on its own over time. Deferring disruptive employer rate increases through collaring could allow this to happen without pension cuts.

As one idea for other financing methods, with borrowing costs so low and the PERS fund growing 13 percent a year, can PERS be provided authority to directly issue bonds and invest the proceeds to achieve still higher growth?

If the Legislature does cut pensions, please provide now for restoration of those moneys to retirees after the PERS fund becomes whole.

Tax Increases

The Legislature should consider raising taxes to help fund the State's and school districts' current needs. The chief rationale cited for cutting pensions is to raise more money for schools. All citizens though have an obligation to help fund a strong educational system and should contribute if we need more money for this. The burden on public retirees would not need to be nearly so drastic if taxpayers as a whole shared in these costs by some modest amount per taxpayer.

Spending Cuts

Please consider whether any of the savings targeted through pension cuts could be realized instead through spending cuts in other programs. Retirees seem to have been thrown into the water in the middle of a feeding frenzy while most other public spending programs watch from the boat. Retirees' contractual COLA rights should certainly receive priority over discretionary spending.

Conclusion

Again, we should in fairness thoroughly consider all reasonable alternatives to cutting the PERS pension. Thank you.

Sincerely,

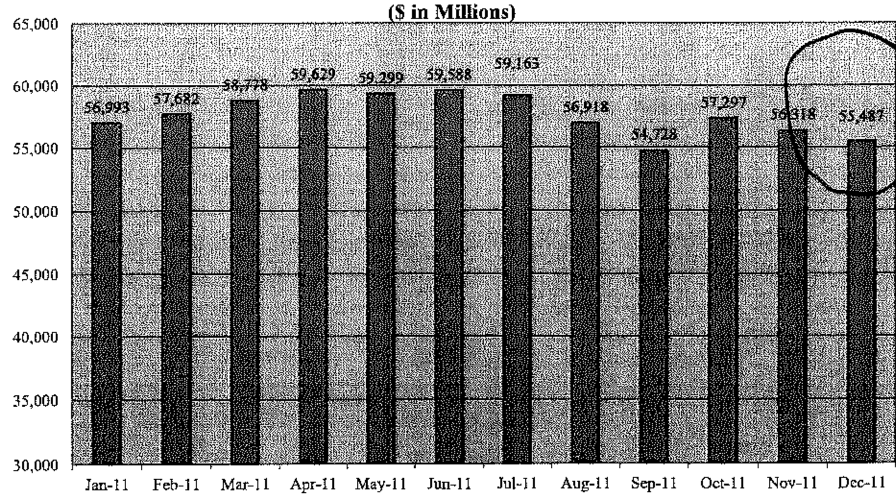
Douglas C. Crummé

Douglas C. Crummé

Returns for periods ending 12/31/11 **Oregon Public Employees Retirement Fund**

	Regular Account				Historical Performance (Annual Percentage)					
OPERF	**Policy[1]**	**Target[1]**	**$ Thousands[2]**	**Actual**	**Year-To-Date[3]**	**1 YEAR**	**2 YEARS**	**3 YEARS**	**4 YEARS**	**5 YEARS**
Public Equity	38-48%	43%	$ 19,214,232	35.1%	(8.23)	(8.23)	3.04	13.28	(4.41)	(1.90)
Private Equity	12-20%	16%	13,399,987	24.5%	11.06	11.06	13.72	7.34	3.07	7.25
Total Equity	**54-64%**	**59%**	**32,614,219**	**59.6%**						
Opportunity Portfolio			938,553	1.7%	**1.50**	**1.50**	**6.80**	**16.17**	**4.19**	**3.95**
Total Fixed	**20-30%**	**25%**	**14,151,034**	**25.9%**	**6.12**	**6.12**	**8.43**	**13.91**	**7.44**	**6.91**
Real Estate	**8-14%**	**11%**	**6,387,079**	**11.7%**	**14.44**	**14.44**	**5.97**	**0.57**	**(3.17)**	**(0.63)**
Alternative Investments	**0-8%**	**5%**	**375,473**	**0.7%**	N/A					
Cash	**0-3%**	**0%**	**233,384**	**0.4%**	**0.10**	**0.10**	**0.49**	**1.11**	**1.15**	**1.99**
TOTAL OPERF Regular Account		**100%**	**$ 54,699,742**	**100.0%**	**2.22**	**2.22**	**7.29**	**11.19**	**0.10**	**1.94**
OPERF Policy Benchmark					**0.80**	**0.80**	**5.93**	**9.04**	**(0.06)**	**1.97**
Value Added					**1.42**	**1.42**	**1.36**	**2.15**	**0.16**	**(0.03)**
TOTAL OPERF Variable Account			**$ 787,516**		(7.53)	(7.53)	**2.92**	**12.82**	(4.38)	(3.22)
Asset Class Benchmarks:										
Russell 3000 Index					1.03	1.03	8.69	14.88	(1.26)	(0.01)
MSCI ACWI Ex US IMI Net					(14.31)	(14.31)	(1.71)	11.53	(6.85)	(2.49)
MSCI ACWI IMI Net					(7.89)	(7.89)	2.63	12.84	(4.60)	(1.64)
Russell 3000 Index + 300 bps--Quarter Lagged					3.57	3.57	8.79	5.45	(1.00)	2.82
Oregon Custom FI Benchmark					5.33	5.33	6.01	6.66	5.72	5.84
NCREIF Property Index--Quarter Lagged					16.10	16.10	10.85	(1.45)	0.19	3.40
91 Day T-Bill					0.10	0.10	0.11	0.14	0.62	1.48

TOTAL OPERF NAV
(includes variable fund assets)
One year ending December 2011
($ in Millions)



[1]OIC Policy 4.01.18, as revised April 2011.

[2]Includes impact of cash overlay management.

[3]For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.

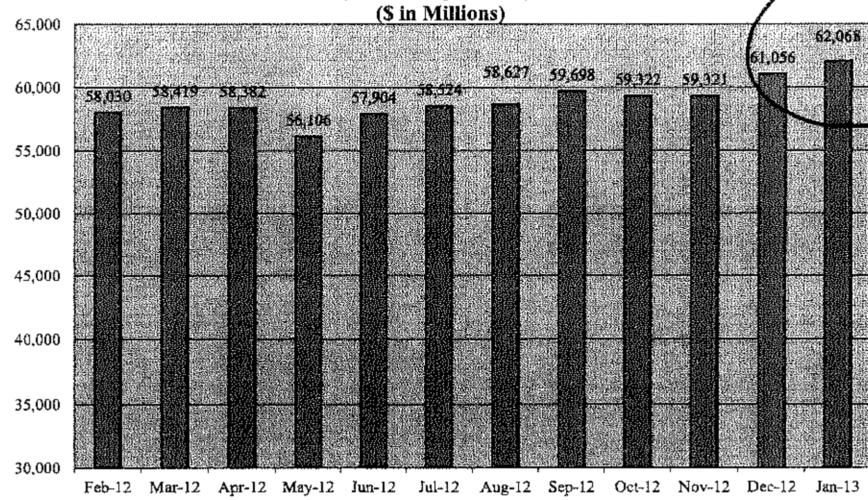
Returns for periods ending 1/31/13 **Oregon Public Employees Retirement Fund**

OPERF	Policy[1]	Target[1]	$ Thousands[2]	Actual	Year-To-Date[3]	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
	Regular Account				Historical Performance (Annual Percentage)							
Public Equity	38-48%	43%	$ 23,227,617	37.9%	5.05	16.15	5.83	10.91	18.14	2.25	3.44	9.18
Private Equity	12-20%	16%	14,069,806	23.0%	N/A	14.41	12.72	13.95	9.06	5.24	9.43	13.07
Total Equity	**54-64%**	**59%**	**37,297,423**	**60.9%**								
Opportunity Portfolio			942,625	1.5%	1.65	18.98	9.69	10.96	17.99	7.29		
Total Fixed	**20-30%**	**25%**	**15,212,857**	**24.8%**	0.09	8.43	7.76	8.42	12.60	7.80	7.20	6.91
Real Estate	**8-14%**	**11%**	**7,295,403**	**11.9%**	0.48	12.70	14.01	9.10	4.21	0.17	4.76	10.28
Alternative Investments	**0-8%**	**5%**	**461,013**	**0.8%**	0.04	(0.51)						
Cash	**0-3%**	**0%**	**20,687**	**0.0%**	0.07	1.22	0.84	0.82	1.18	1.15	2.33	2.24
TOTAL OPERF Regular Account		**100%**	**$ 61,230,008**	**100.0%**	1.97	13.33	8.71	10.77	13.34	4.00	5.29	9.05
OPERF Policy Benchmark					2.09	15.43	9.11	10.72	12.62	4.28	5.65	8.93
Value Added					(0.12)	(2.10)	(0.40)	0.05	0.72	(0.28)	(0.36)	0.12
TOTAL OPERF Variable Account			**$ 838,130**		4.71	15.44	5.68	10.68	17.71	1.64	2.04	

Asset Class Benchmarks:

	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Russell 3000 Index	5.64	16.38	9.42	14.76	20.06	4.37	4.27	8.68
MSCI ACWI Ex US IMI Net	4.10	13.83	1.76	7.23	16.59	0.31	3.55	11.02
MSCI ACWI IMI Net	4.72	14.88	5.21	10.21	17.59	1.93	3.70	9.41
Russell 3000 Index + 300 bps--Quarter Lagged	N/A	34.02	17.82	16.62	11.97	5.18	8.28	12.50
Oregon Custom FI Benchmark	(0.10)	6.83	6.82	6.34	7.28	5.95	6.05	5.55
NCREIF Property Index--Quarter Lagged	N/A	11.00	13.52	10.90	1.52	2.26	6.39	8.34
91 Day T-Bill	0.00	0.11	0.10	0.11	0.14	0.42	1.73	1.79

TOTAL OPERF NAV
(includes variable fund assets)
One year ending January 2013
($ in Millions)



[1]OIC Policy 4.01.18, as revised April 2011.

[2]Includes impact of cash overlay management.

[3]For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.