PERS SOLUTIONS
FOR PUBLIC SERVICES

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Testimony Regarding SB 1049
Joint Ways and Means Capital Construction Subcommittee

My name is Tim Nesbitt, representing PERS Solutions for Public Services.

As our name suggests, we have been focused not just on responding to the PERS funding challenge, but on protecting public services – for kids in our classrooms and for Oregonians of all ages.

For the former, it's the challenge of doing more and better with the new revenue you have secured for our schools. For others, it's the challenge of holding on, avoiding layoffs and not cutting critical programs, even in this robust economy.

PERS solutions aren't the only means to achieving these goals. But they are a necessary component of doing so -- because not doing so will allow an additional $10 billion to be siphoned from public service budgets in Oregon over the next eight years.

Further, this is a problem that only you can solve. No school board, no city council, no county commission can do anything other than pay the bills that PERS sends their way. Only you can take action to reduce those bills and soften the impacts on their budgets.

For that reason, we are encouraged to see in SB 1049, finally, solutions to the PERS problem that will help to protect public services and improve our education system.

Employee Cost Sharing

SB 1049's provisions for employee cost sharing and benefit corrections are reasonable and legal mechanisms to control PERS costs. On that last point, just ask your counsel, who has taken a very cautious approach to following the Supreme Court's guidance in the *Moro* decision.

Reinstating employee contributions to the pension plan will free up funding for services without cutting employee paychecks. The key to this approach is to "redirect" employee contributions that now go to a supplemental retirement savings plan to instead help pay for the pension plan. This is how the pension plan was financed before 2004. It makes sense to reinstate this practice now that the costs of the pension plan have more than doubled in the last decade.

- We understand the reasons for calibrating the employee contribution to reflect the benefit levels and differential costs of Tier 1 and 2 members and OPSRP members. But a better way to do so would be to key the employee contribution rate to the going-forward or "normal" costs of benefits earned. At the pre-2003 average of one third of the pension plan's normal costs, employee contributions would range from 2.8% for OPSRP to a maximum of 6%. Employee contribution rates could then rise and fall with changes in the pension plan's normal costs.

- A major flaw in SB 1049's cost sharing formula is that it provides for termination of the employee contribution before any reduction in overall payroll rates and fails to provide for increases in the employee contribution if the system's liabilities and costs increase.

Benefit Corrections

It also makes sense to correct the excesses of the pension program that have generated extraordinary benefit payouts. SB 1049 takes important steps in this direction by capping high-dollar pensions and by limiting the practice of inflating Money Match benefits.

Those high-dollar pensions have given PERS a bad name in headlines from coast to coast. Fixing that problem is long overdue. And for those with salaries above $195,000 a year, they can afford to set aside more from their paychecks if they choose to.

Money Match is another excess in the system that is long overdue for correction. Almost half of all retirees since the mid-1990s have benefited from this arcane provision, which was intended to protect a handful of employees in the 1960s. Those who benefit from Money Match gain pensions far in excess of what PERS was designed to deliver and are responsible for the lion's share on the unfunded liabilities in the system. It makes no sense to base their annuities on the system's earnings rate, which includes an inflation factor, and then provide an inflation-based cost-of-living adjustment on top. The reform contained in SB 1049 corrects for this double counting of inflation.

Re-employment of Retirees

SB 1049's provision for reforming how you manage the re-employment of retirees is another step in the right direction. When we first proposed this, we called it a "work back/pay back" plan. But, in its current version, there will be no pay back from retirees who are allowed to draw a full retirement benefit and a full paycheck. Adding a "salary sacrifice" provision would still provide a generous compensation package for those who take advantage of this option. Further, a "salary sacrifice" mechanism would provide the only way in which you can legally recapture a portion of the PERS legacy costs that burdens employers.

Extension of the System's Debt Payment Period

We have always recognized that reductions in the going-forward costs of the PERS benefit structure will have to be accompanied by plans to manage the system's legacy costs, which remain beyond the legal reach of legislative reforms. Extending the period for paying off those legacy costs is a legitimate consideration to avoid burdening one generation of kids in our classrooms with the costs of mistakes accumulated over decades before them. But doing so without further substantive reforms or buy downs of the system's liabilities from other sources will create significant risks for public jurisdictions and their taxpayers in the future.

It's the same for a family facing a large credit card debt. First you reduce your monthly expenses. Then, if your income allows, you refinance your loans or renegotiate minimum payment amounts in order to pay off your debt over a longer period of time.

The question now is whether you have done enough to reduce the system's going- forward costs to justify extending the minimum payment schedule for paying off the system's liabilities.

In its current form, SB 1049 will add risk to the system in the long run, but it will also free up funding for services in the short run with long run payoffs for our people. So the risk should be carefully calculated and well managed. And it will help to follow Governor Brown's lead in pursuing other revenues or resources to buy down the system's liabilities.

Issues of Fairness for Current Workers

We have been consistent in advocating for reforms that would not result in substandard retirement benefits for current workers.

The combination of employee cost sharing and benefit corrections contained in our proposals and those included in SB 1049 would still leave largely intact a generous pension plan and a supplemental retirement savings plan. Combined, these plans will continue to meet or exceed the system's goals of an initial retirement benefit of 50% of final average salary after 30 years of employment for general service members.

As an OPSRP member during my five years in the Governor's office, I earned a better retirement benefit than in any equivalent period in my 27 years of working in the union movement. And, teachers should take into account that the higher salaries now paid by Washington state school districts are enabled in part by a retirement plan that is only two-thirds the value of our OPSERP plan.

PERS, under SB 1049, will continue to be adequate for employees and competitive for employers, even as it becomes more affordable for taxpayers.

How Private Sector Unions Have Addressed Similar Pension Funding Challenges

Recently, I met with a pension fund manager for the building trades and several of my former colleagues from those unions to learn how their labor-management trusts had responded, after the 2008 recession, to funding challenges similar to those PERS confronts today.

What I learned is that the union trustees proposed, and their memberships approved, a series of adjustments not unlike those contained in SB 1049, including:

- reducing future benefit accruals; and,
- re-directing a portion of contributions to recapitalizing the fund's reserves.

They did so with the goal of sustaining their pension plans for the long haul and saving jobs for their members.

The same can be done here without being anti-worker or anti-union.

Impact on Services

As I said in my opening remarks, this is about making a course correction for PERS in order to save services for Oregonians. With that in mind, we have calculated the effects on budgets – and, specifically, the effects on services in K12 – from this legislation, from the Governor's proposals and from other proposals filed for the 2020 ballot. The handout you have details those "savings for services."

SB 1049, for all its short comings, will make a big difference when it comes to student success – the equivalent of more than 2,000 teachers or 8 days of school from both its cost saving reforms and its re-amortization provisions. We can expect similar gains in staffing and services in state agencies, counties, cities and special districts.

We had hoped to see even greater savings for services. At the end of the day, this is about the class of 2025 and those who will come after them and Oregonians of all ages who count on public health, public safety and other critical services.

If this is the best you can do this session, then we conclude you should do it. It won't mean that you are done with PERS, because PERS is not done with us. But it will make a real difference for kids in today's classrooms and for Oregonians in all walks of life. And that consideration ought to be what finally breaks the deadlock on this issue now and provides a framework for further reforms in the years ahead.

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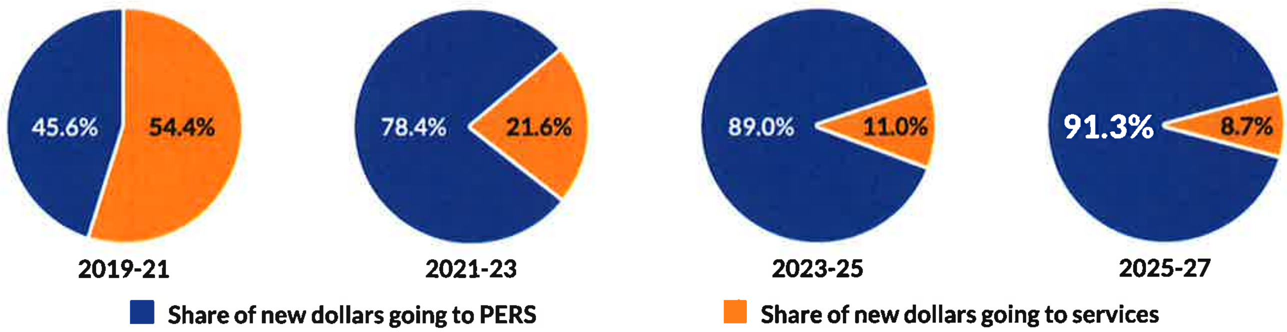
PROBLEM

PERS cost increases will claim an additional $10 billion from public service budgets over the next eight years. Even with a $2 billion revenue package dedicated to education and state services, **80 cents of every new dollar will go to PERS** in that eight year period.

$2 Billion Revenue vs PERS Costs through 2027 (millions of $)

	$2 Billion Rev. +5%/year	Cumulative PERS Cost Increases All Entities	Biennial Percentage PERS/Revenue	Cumulative PERS Cost Increases State/Education	Biennial Percentage PERS/Revenue
2019-21	$1,500*	$1,015	67.7%	$684	45.6%
2021-23	$2,205	$2,546	115.5%	$1,728	78.4%
2023-25	$2,431	$3,109	127.9%	$2,163	89.0%
2025-27	$2,680	$3,496	130.4%	$2,448	91.3%
Total 2019-27	$8,816	$10,166	115.3%	$7,023	79.7%

*18 months



SOLUTIONS

PROPOSAL	2019 LEGISLATION & 2020 INITIATIVES	2019-21 SAVINGS FOR SERVICES	2021-23 SAVINGS FOR SERVICES	OFFSET OF PERS COST INCREASES 2019-2027
Skin in the game: *Reinstate employee cost sharing for the PERS pension plan*	**IP 22:** Employees contribute 6%	$0	$475 million	44%
	IP 23: Employees (ex. P&F) contribute 6%	$0	$456 million	38%
	IP 24: Employees contribute 2.8% to 6%	$0	$262 million	27%
	Governor: Employees contribute 1.5%-3% > $20K	$0	$104 million	10%
	SB 1049: Employees contribute 0.75%-2.5% > $30K	$148 million	$293 million	10%
Benefit corrections: *Modify excessive benefits going forward*	**IP 22:** $150 salary cap	$2 million	$7 million	<1%
	SB 1049: $195 salary cap & Money Match reform		$93 million	3%
Establish 401(k) style DC plan	**IP 22 / IP 23:** DC plan @ 6% Employer + 6% Employee	$0	*Savings will depend on amount of pension cost sharing*	
Reform "Double Dipping"	**Governor & SB 1049-1:** Lift the hours limit & require employer payments to PERS for re-employed retirees	*No savings – accelerates buy down of UAL*		*Will reduce UAL by >$500 million over 8 years*
Debt Deferral *Extended pay off of UAL*	**SB 1049** extends pay off period for Tier 1/2 UAL	$0	$904 million	29%

K12: Staffing and Services Recovered from Employee Pension Cost Sharing at 1/3 of Normal Cost

Eff. 7/1/19; Assumes Tier 1/2 active employee population, now 44% of payroll, declines by average of 6%/year

Biennium	Employer PERS Savings	Biennial Cost of One Teacher	Savings Equivalent to # Teachers	Biennial Marginal Cost of One School Day	Savings Equivalent to # School Days
2019-21	$256,294,559	$197,736	253	$51,610,000	5.0
2021-23	$262,429,564	$210,472	1,247	$53,703,000	4.9
2023-25	$270,816,794	$220,178	1,230	$55,851,120	4.8
2025-27	$282,693,124	$230,442	1,227	$58,085,165	4.9

K12: Staffing and Services Recovered from SB 1049's Cost Sharing and Benefit Corrections

Assumes Tier 1/2 active employee population, now 44% of payroll, declines by average of 6%/year

Biennium	Employer PERS Savings	Biennial Cost of One Teacher	Savings Equivalent to # Teachers	Biennial Marginal Cost of One School Day	Savings Equivalent to # School Days
2019-21	$50,039,702	$197,736	253	$51,610,000	1.0
2021-23	$129,137,304	$210,472	614	$53,703,000	2.4
2023-25	$130,083,565	$220,178	591	$55,851,120	2.3
2025-27	$133,088,417	$230,442	577	$58,085,165	2.3

K12: Staffing and Services Recovered from SB 1049's Extended UAL Amortization

Biennium	Employer PERS Savings	Biennial Cost of One Teacher	Savings Equivalent to # Teachers	Biennial Marginal Cost of One School Day	Savings Equivalent to # School Days
2019-21	$0	$197,736	0	$51,610,000	0.0
2021-23	$296,095,803	$210,472	1,407	$53,703,000	5.5
2023-25	$317,185,226	$220,178	1,441	$55,851,120	5.7
2025-27	$339,776,744	$230,442	1,474	$58,085,165	5.9