A BRIEF HISTORY OF PERS

Summarized by Oregonian Reporter Ted Sickinger

Q: How did Oregon end up with this huge pension liability?

A: You can certainly point a finger of blame at the financial meltdown in 2008 that hammered the pension fund's investments. Plenty of other pension funds, public and private, found themselves falling into the red as well.

But that's not all. Oregon's pension fund is particularly vulnerable to periodic downturns in the stock market because state and local workers hired before 1996 were credited with some of the most generous pension benefits of any public employer in the country, and the cost wasn't always clear at the time.

That wasn't the plan.

When the Legislature made major revisions to the pension system in 1981, it set a goal of providing pensions to retirees with 30 years of service that would meet 50 percent to 60 percent of what they last earned when they were working. That's considered a model goal for a retirement plan, particularly since retirees could also add Social Security benefits and their own savings to the mix.

But by the time PERS began to run into serious financial problems in 2000, when another stock market crash sent the system into deficit, the picture looked much different. These Tier One retirees, which refers to anyone hired before 1996, were typically leaving with retirement benefits that equaled 100 percent of their three highest years of salary --which itself could be above their actual salary as it included such add-ons as unused sick leave.

Q: Why were benefits so generous for Tier One retirees?

A: It's a bit like trying to explain how the federal tax code came to take up thousands of pages. Politics, legal battles and unintended consequences all played a role.

Originally, PERS was something like a 401(k) plan. Employers and employees contributed to the plan, and PERS then matched the account based on investment earnings. The accounts grew slowly, however, and the Legislature in 1969 created a new approach based on a worker's salary and years of service.

Lawmakers thought the old "money match" would be used only by a few workers hurt under the new system. But when the market took off in the 1990s, the money match proved to be more lucrative for many retirees.

That was particularly true because the PERS board, which was then dominated by public employees and managers, routinely credited the accounts of members with earnings far beyond the 8 percent guarantee. Their thinking was that PERS members should get the benefit of the booming stock market, and they underestimated how much they needed to keep in a rainy day reserve for a market drop.

There's more. In 1979, the state negotiated a deal with its workers: forgo most of a pay raise and we'll pick up the 6 percent you contribute to your retirement. That was a good deal to the state at the time, but it also increased the taxpayer cost of the system.

Through the 1980s, the public employee unions were adept at tweaking the PERS system to provide higher benefits, such as by allowing workers to retire at any age with 30 years of service. In each case, they pointed to big investment earnings and told lawmakers it was a no-cost way to do something for an important political constituency.

At the same time, the courts ruled that once people in the PERS system were granted a benefit, they had a contractual right to it. Private employers can, for example, close a pension plan and replace it with something cheaper (or with nothing) as long as they give workers the benefits they have earned up to that point. But PERS recipients are entitled to any benefits ever granted to them for as long as they work.

Q: Haven't public workers paid for their PERS benefits?

A: That's a common belief among many PERS members. Indeed, part of their overall compensation goes into a retirement fund, which grows as it is invested. But the system's costs have forced the taxpayers to increase their contribution to the retirement fund. In July, the amount that public employers had to pay into PERS rose by an average of 6.8 percentage points, more than doubling their cost. Ultimately, taxpayers are on the hook for those costs.

Q: What has been done to contain costs?

A: The Legislature made major reforms to the PERS system in 2003 that updated actuarial tables, changed earnings assumptions, revamped the PERS board and created a less-expensive plan for new hires. So far, the changes have begun to reduce the cost of growth. In 2009, the most recent year studied, 30-year retirees were on average retiring with pensions worth 77 percent of their final average salary.

In 2010, a task force set up by then-Gov. Ted Kulongoski called for several more changes in PERS, saying that continued cost increases contributed to what the task force warned was a "decade of deficits." Legislators failed to agree on any changes in the 2011 session.

Many years from now, as Tier One employees (and, to a lesser extent, Tier Two employees who began working between 1996 and Aug. 29, 2003) work their way through the system, the costs will be much lower. But in the meantime, the unfunded liabilities in the system keep adding to the cost, like the unpaid balance of a credit card debt.

Q: Do PERS retirees pay taxes on their benefits? Can they start collecting their benefits and still keep their jobs?

A: PERS beneficiaries once were exempt from state taxes. The U.S. Supreme Court struck down that practice and retirees were given a compensating increase, and now all PERS retirees pay taxes on their benefits.

Generally, PERS members can retire and can continue to work less than 1,040 hours a year (essentially half-time) for any agency covered by PERS. They do not accrue additional retirement benefits in this case.