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Summary

The high costs and unfunded liabilities of Oregon's Public Employees Retirement System call for sizeable reforms. Workers and taxpayers would benefit from a simplified defined contribution plan for all new public employees.

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“Eliminating a projected \$7 billion PERS deficit would cost each taxpayer in the state over \$400 per year for each of the next 40 years.”

PERS reform is overdue

By Peter J. Ferrara, J.D.

The Oregon Public Employees Retirement System (PERS) is badly in need of reform. Despite the booming stock market over most of the last 20 years, the system now faces a sizable unfunded liability.

How bad is it? PERS itself has initiated a detailed analysis of what could happen when the majority of employees, called Tier 1 workers, reach retirement. Though its report is not complete, preliminary findings are alarming. *The Oregonian* reports, “In one computer model, using reasonable assumptions about the long-term performance of the market, the [PERS] study found that the Tier 1 program could be \$7.3 billion in the hole at the end of 40 years.” Eliminating a projected \$7 billion PERS deficit would cost each taxpayer in the state over \$400 per year for each of the next 40 years.

PERS reform has been a top concern among state and local government officials. The Association of Oregon Counties recently noted that 15 of 32 participating counties have accumulated “untenable” levels of unfunded actuarial liabilities. In four of these counties the deficits reach over 40 percent of their 1999 payrolls. The financial insolvency of PERS represents a looming crisis for taxpayers, and a current crisis for Oregon's cities, counties and school districts.

Despite the widespread concern lawmakers have again failed to move any meaningful reform through the legislature. Oregon cannot afford to continue procrastinating.

When all of the costs to state and local employers are counted, Oregon PERS is one of the most expensive public employee retirement plans in the country, as well as probably the most complex. Even if we just focus reforms on new employees, leaving current employees without change, much good can be done.

The best system for such new workers, as well as taxpayers, is a simple defined contribution plan. Under the reform I propose in *Pension liberation for Oregon*, a new study published by the Cascade Policy Institute, workers and employers would make contributions into a personal account for each worker. Workers would each choose a mutual fund or a money manager from a list approved by the state, for investment of the account funds. Retirement benefits would then be financed by the accumulated account funds at retirement.

The new system would be at least competitive with current benefits, with many advantages. Workers would be given the opportunity to take home more pay by reducing their contribution portion slightly, and would enjoy greater investment freedom, complete portability and no vesting requirements for the individually owned accounts.

For taxpayers, the new system would reduce employer costs by about 35 percent, with the savings initially devoted to reducing the unfunded liabilities of the current system, lowering that long-term taxpayer burden. The defined contribution system would offer employers greater certainty and predictability in budgeting, and there would be no danger of generating unfunded liabilities. Because the new system would be comprised of decentralized personal accounts managed by private firms, Oregon would never again bear the investment or political risks associated with a large state-managed investment fund.

Private sector employers have moved sharply towards defined contribution retirement plans over the last 25 years, and other states have begun to adopt such reforms as well. Oregon was originally a forerunner in this trend; PERS began as a defined contribution plan in 1945. The state should now return to its roots.

Because of the wide-ranging benefits described above, the movement towards defined contribution reforms in public employment pensions is called pension liberation. The time has come for pension liberation for Oregon.

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