



CASCADE POLICY INSTITUTE

# CASCADE COMMENTARY

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## Summary

Oregon's Public Employee Retirement System is so underfunded that it threatens to bring on the biggest financial crisis in state history. The current estimate of a \$15.7 billion shortfall is projected to only grow larger with time. Experts are calling for the system to end now and be replaced with a defined contribution plan that limits taxpayer liability while providing public employees with a good retirement plan.

**Word count: 593**

***“Unlike many fiscal issues, the PERS question pits not just taxpayers against government workers; it pits local governments against the state.”***

## Shut down PERS now

*By Steve Buckstein*

The skyrocketing shortfall in the Oregon Public Employee Retirement System (PERS) threatens to bring on the biggest fiscal crisis in state history. Just a few years ago PERS was touted as the best public pension system in the country. Now, it's likely the worst—at least for the taxpayers.

The PERS shortfall is \$15.7 billion now, and is estimated to reach \$40 billion by 2050 if the system isn't radically altered.

Until last month PERS supporters pinned their hopes for retaining the system on the fact that so-called Tier 2 workers hired in 1996 and after would enjoy less lucrative benefits than Tier 1 workers hired before that year. In effect, we were told to just be patient, that after all those Tier 1 workers died the system wouldn't be a burden to taxpayers anymore. Now PERS has done the analysis and admits that Tier 2 is effectively just as costly to taxpayers as Tier 1.

With the problem is out in the open, two of the state's most prominent economists, Cascade chairman William Conerly, Ph.D. and advisor Randall Pozdena, Ph.D., are calling for the system to be shut down—tomorrow if possible. Both are members of PERS taskforces recently convened by Governor Kitzhaber and Speaker of the House Simmons. Pozdena previously chaired the Oregon Investment Council, which is responsible for overseeing PERS investments.

Once the system is shut down and plan members are credited with what the system owes them, Conerly and Pozdena recommend that the state start over with a new pension plan structured along the lines of the one suggested in Cascade's 2001 report, *Pension Liberation*. It should be a defined contribution plan in which taxpayers could be as generous as we wish to public employees, but once the taxpayer contribution level has been set our obligation would end. No more possibility of future multi-billion dollar surprises.

Retired PERS recipients should have little to worry about because they already earned their PERS benefits. Taxpayers would still owe some yet-to-be-determined amount to pay remaining PERS benefits, but this seems like a better solution than further tinkering with a system that is already so complicated and costly that almost no one fully understands it.

Unlike many fiscal issues, the PERS question pits not just taxpayers against government workers; it pits local governments against the state. Cities, counties, school districts and other local governments face gigantic increases in their PERS contributions to keep the system solvent. Soon, PERS will eat up between 20 and 30 percent of state and local government payroll costs. A typical school district, for example, where personnel costs are already some 80 percent of current expenses, could see huge PERS obligations decimate classroom funding.

The bottom line is that Oregon's public pension system is so stacked against the people who pay for it that something has to give. The public employee unions contend that it is taxpayers who should give, and give and give. They claim that we have made a contract with their members that can never be altered. But it must be altered in the future. We owe government workers what we promised for work already done, but we must strike a new deal with them from here on out.

Just as an imminent hanging focuses the mind, an imminent \$15.7 billion IOU should focus legislative, media and public attention on the fact that our state government is living beyond Oregonians' means and threatens to bankrupt some local governments and taxpayers. The problem is here now, it's worse than anyone thought, and it must be dealt with now.

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### **Attention editors and producers**

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