



CASCADE POLICY INSTITUTE

# CASCADE COMMENTARY

May 2004

No. 2004-13

## Summary

The upcoming Oregon Supreme Court decision on whether or not to uphold the PERS reforms will have far reaching effects for Oregonians. Surprisingly, overturning them may ultimately be better for the state.

**Word count: 673**

***“Two particular groups have an especially huge stake in the Court upholding these reforms: young public employees and the next generation of public employees.”***

## PERS to Determine Oregon's Future

*by Steve Buckstein*

The Oregon Supreme Court is scheduled to hear lawsuits later this year aimed at overturning the legislatively adopted reforms of the Public Employees Retirement System (PERS). The extraordinarily expensive, highly complex and wildly unpredictable PERS system represents by far the largest single financial obligation facing Oregon's taxpayers.

The Court's decision on these reforms will determine whether taxpayers will be pushed over a financial cliff—or merely condemned to continue paying for an expensive, partially reformed pension scheme for public employees. Clearly, this is not simply another academic court case; the decision will have massive real world consequences for all Oregonians.

First, rejection of the PERS reforms would cost Oregon taxpayers an additional \$8 billion, which equals more than \$5,000 per taxpayer. It would take so long to pay off that Oregonians now in kindergarten and grade school would face a substantial portion of the cost.

Second, with voters adamant in their opposition to higher statewide taxes, rejection of the PERS reforms by the Court would inevitably cause reductions in basic government services such as public safety, corrections and education.

Third, if the Court rejects the PERS reforms, the collateral damage to the state's economy would be staggering. The Legislature's Oregon Tax Incidence Model suggests that rejecting the PERS reforms could cost the state more than 250,000 jobs and Oregon workers more than \$11 billion in lost personal income. The 45,000 jobs lost during the 2000-2003 recession pale in comparison.

Fourth, failure to uphold the PERS reforms would send a clear and unwelcome message to Oregonians: Public employees are somehow entitled to pension benefits substantially higher than those of the very taxpayers forced to guarantee them.

Two particular groups have an especially huge stake in the Court upholding these reforms: young public employees and the next generation of public employees.

*-more-*

Why is this so? If the Court bows to the arguments of public union leaders and rejects these reforms, major consequences will surely follow.

To begin with, public employers crushed by the cost of PERS will be forced to lay off employees. Union seniority rules almost always dictate that the young go first.

Next, raises for public employees will be impossible, both financially and politically, as outraged taxpayers draw the line once again. This burden will fall disproportionately on young public employees who are lower on the seniority-driven salary scale and thus most dependent on the potential for raises.

Finally, younger workers first employed in the few years before 1996 (the cutoff date for the most generous Tier 1 PERS benefits) will see their pension benefits drop dramatically. Older workers hired many years before 1996 will retain the extravagant benefit levels built up by past PERS Board decisions.

Ironically, there is one reason that young public employees—and the rest of us—might want to root for the Court to reject the reforms. The overwhelming costs associated with such a rejection might just set into motion a powerful, grassroots movement to legally terminate the PERS system entirely. The legislature has the statutory authority to do so, and in hindsight perhaps that's what should have happened instead of just attempting to reform the system.

If the PERS system is terminated, we only owe public employees the pension benefits they have accrued for their years of service to date. Taxpayers would save at least the \$8 billion cost of overturning the reforms, and perhaps more. We can then create a straightforward defined contribution plan in which taxpayer costs are clear and predictable. Such a plan would give public employees benefit levels that are comparable to those enjoyed by the taxpayers who must foot the bill.

So, the best outcome of the Court's PERS reform case may be to overturn the reforms and then end the system entirely. The next best outcome is to uphold the reforms and live with a still-expensive but not catastrophic PERS cost. And the worst case scenario? Overturn the reforms, retain the PERS system and fall over a financial cliff.

---

*Steve Buckstein is president of Cascade Policy Institute, a Portland think tank.*

***“Such a plan would give public employees benefit levels that are comparable to those enjoyed by the taxpayers who must foot the bill.”***

### **Attention editors and producers**

*Cascade Commentaries* are provided for reprint in newspapers and other publications, with credit given to author(s) and Cascade. Contact Cascade to arrange print or broadcast interviews on this commentary topic. Electronic text files are available online at [www.cascadepolicy.org/cctext/](http://www.cascadepolicy.org/cctext/).

Please contact:

Kurt T. Weber  
Vice President  
Cascade Policy Institute  
813 SW Alder Street, Suite 450  
Portland, Oregon 97205

Phone: (503) 242-0900  
Fax: (503) 242-3822

[www.cascadepolicy.org](http://www.cascadepolicy.org)  
[kurt@cascadepolicy.org](mailto:kurt@cascadepolicy.org)