The Public Employee Retirement System provides local governments an essential benefits package to recruit and retain a qualified workforce. While the unfunded actuarial liability is putting a strain on budgets for the next few biennium, solutions that focus on reducing benefits for workers are short-sighted, costly, and will could make the system worse.

Real solutions to increasing employer costs would include the following:

Consider total compensation at the bargaining table - A secure retirement benefit is part of that compensation. Changes that focus only on cutting PERS don't take into account the total compensation cost to employers. When benefits are cut, employer costs can increase. The best solution to reduce PERS costs locally is at the bargaining table.

Protect retirement security. Requiring employees to still contribute 6% of their salary but taking it away from their Individual Account Program will drastically reduce retirement security. Based on an actuarial analysis, losing the 6% contribution to their IAP would reduce member accounts as much as 75% and total retirement benefit in the double digits.

Don't force the state back into another expensive and lengthy lawsuit. Proponents of reducing employee retirement benefits claim they have found a way to make legal cuts, but they have provided no legal analysis to prove it.

- According to legal analysis in testimony provided this year to the legislature, reductions to IAP accounts are legally risky. "The diversion of the 6% from the IAP to the new "contribution account" comes with no new benefit to members. Whether that is legal is a question that the Supreme Court has not addressed." Testimony of Bennett Hartman, Mar. 29, 2019, Joint Ways and Means Capitol Construction Committee.
- More than $7 billion in benefits have been restored to public employees after the 2005 Strunk ruling and the 2015 Moro ruling.

Reduce the unfunded liability

None of the proposals by the "PERS Solutions" group actually reduces the unfunded liability. Without that, employer costs are at risk of increasing further in the next downturn.

Don't make the problem worse. One radical change to PERS that has been proposed would completely eliminate the defined benefit and offer only a defined contribution (401(k)-style) plan. The PERS agency has analyzed whether there is a benefit to shifting to a proposals and says that shifting to a 401(k) plan does not reduce employer costs or the unfunded liability and will create management problems. Here's why:

- <u>Doesn't reduce employer costs</u>. Every new hire and OPSRP costs 8.49% of payroll today. The unfunded liability adds 14.21% (July 2019 rates.) Whether the employer is contributing to a defined benefit of defined contribution plan, those costs will stay the same. The unfunded liability is a legacy cost. More than 70% comes from people already retired or inactive. Employer costs for the UAL will remain high until they leave the system.
- <u>Are more expensive to administer</u>. According to the PERS analysis, defined contribution plans are 48% more expensive to administer. Those costs would be passed on to public employers.
- <u>Will increase turnover in public service</u>. PERS provides a powerful incentive for a stable workforce. If public service no longer provided a secure retirement benefit, public employees will be more likely to leave and take their skills and expertise to the private sector where they can earn a higher salary.

Focus on the long-term. One of the important lessons the state has learned about PERS is that changes to the system affect employers for decades to come. The 2003 creation of OPRSP dramatically reduced the cost of new hires and is a sustainable system for the future. Employer rates for the unfunded liability will stabilize over the next few years and will plummet within 16 years. These are known and predictable costs. Creating a new PERS system or radically reducing benefits inserts unknowns into the system and will raise costs in other areas.

Reduce the cost of the UAL.

- According to recommendations by Gov. Brown's 2017 UAL Task Force, there are a number of real property assets held by the state which are no longer in use, or for which there may be a higher value use. More analysis is needed to identify those properties as well as those held by local governments that could be sold to buy down the PERS UAL.
- According to Gov. Brown's 2017 UAL Task Force, targeted and expanded lottery offerings would allowed under the law and would assist in buying down the unfunded liability.

Learn lessons from history and from other cities and states - radical changes to retirement systems increase costs and turnover.

Today more than 30% of local government employees are eligible to retire, according to the PERS Agency. Radical changes to the retirement system, such as taking away the 6% contribution to an employee's IAP or creating a new fourth tier will force Oregon into repeating history.

- After the 2003 retirement cuts that created OPSRP, Oregon had a record number of retirements, resulting in workplace shortages in schools and local governments.

According to the Oregonian story from December of 2003: "About 4,000 PERS members retire in a typical year. By the end of June, 8,624 had chosen to leave -- more than in any previous year."

States that have moved public employees to a 401(k)-style, defined contribution plan have experienced harmful consequences, which is why so few states have done it.

- Only three states currently offer a defined contribution-only plan exclusively to their public employees. At least eight other states offer public employees some choice among defined benefit pension plans, defined contribution plans, or hybrid retirement plans. In these states, public employees overwhelmingly choose the pension plan. For the states that only offer a defined contribution plan, these plans end up costing taxpayers more and leave public employees without retirement security.
- Utah closed its pension plan in 2011 and placed new hires in a hybrid defined benefit-defined contribution plan. The state has struggled to hire new police officers and firefighters since the plan changed with hundreds of vacant positions statewide.
- When given a choice, public employees choose pensions. West Virginia had closed its pension system for teachers in 1991 and replaced it with a 401(k) plan. But the defined contribution plan did not meet the goals of retirement security for educators so the state reopened the closed teacher pension plan to new teachers beginning in 2006. Two years later, more than 78% of educators in the 401(k)-style plan switched to the pension when given the option. "Oregon PERS must be protected," National Pension Protection Coalition, Oct. 2018.

One of the seminal analysis done on a local government's defined benefit versus defined contribution looked at what happened in Palm Beach, Florida after they implemented a DC plan. The analysis found:

- Reducing the pension and using a 401K to provide the majority of the retirement benefit "reduced the long-term value proposition that played a fundamental role in retaining the police officers and firefighters."
- "Offering pensions is particularly important in the public sector where salaries are low and employers can't offer benefits like stock options. The recruitment and retention effects of pensions are key reasons why the public sector has maintained this type of retirement plan, especially for public safety officers."
- After the change, 20% of the workforce opted to immediately retire, an unprecedented wave of retirements.
- Each departure left Palm Beach with an estimated $240,000 price tag for training police and firefighters who took their skills elsewhere. "The Dangerous Consequence of Cutting Public Safety Pensions," Forbes, Oct. 30, 2018