More on PERS -- Alternatives to SB 1049

One of the only substantive reasons some state for not extending the amortization of unfunded liability to 30 years is that it would reduce Oregon's bond rating. This is far from certain. When an OEA member asked Mark Brenner, who is an economist for LERC at the UO, this is how he responded:

"Conservatives and Wall Street Democrats are arguing that by extending the amortization period it will send a signal to the financial markets that we don't have our fiscal house in order, that there are looming debts that we might not be able to repay. They were therefore lower our bond rating, and the state will be forced to borrow money at a higher rate of interest for capital construction and other long-term projects. This will raise the interest payments that the state has to pay on those projects and cost taxpayers more money in the long run.

Of course, the simplest rebuttal is to offer concrete counter examples that longer amortization periods don't affect bond ratings, and there are many:

Looking at the most recent pension plan data (2017) we see that Oregon PERS is 80.1% funded, with a 20 year amortization period. Our state has a AA+ bond rating with Standard and Poors. By contrast, the Hawaii equivalent to PERS is 55.2% funded with a 30 years amortization period. Their state has the same AA+ bond rating that Oregon does. The same is true for South Carolina, their retirement system is 55% funded and they have a 29-year amortization period. SC has the same AA+ bond rating as Oregon. The Maryland PERS example is even clearer. Their retirement system is 69.4% funded, with a 25 year amortization period, and their state has a AAA bond rating.

GIven that Oregon is in the top third of fully funded pension plans, and given that we have adopted very conservative parameters around amortization of PERS, relaxing those amortization parameters to more commonly utilized planning horizons is highly unlikely to affect our bond rating. Oregon is still a solid investment.

What makes this even more clear is that whatever problems PERS might have had, we corrected them over 15 years ago. The creation of Tier 3 made PERS entirely sustainable in the long-term. In fact, even if we left employer contribution rates unchanged, the UAL would start to shrink over the next 30-40 years because Tier 1 retirees will be exiting the system (aka dying off). There are accounting best practices which preclude ignoring your UAL, but the math make it very clear. We fixed this problem 15 years ago, now we need to let the fix work its way through the system."