New attacks on Oregon public pension plan

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The Oregon Public Employee Retirement System (PERS) announced at the end of July that it had suffered a loss of 4 percent on the expected rate of return on its investment for 2015, which, combined with a yearly payout of $3.5 billion, rendered a net loss of $3 billion.

Added to the above loss is a shortage of over $18 billion accumulated over several years of low investment returns, and a significant 2015 Oregon Supreme Court decision invalidating legislation mandating cuts to PERS, which was passed in 2013. These losses have ignited yet another campaign to gut public workers' pensions.

Such campaigns were initiated after both the dot-com bust of 2001-2002 and the 2008 global downturn that wiped out $18.3 billion of assets held by PERS. Both resulted in major changes to PERS, however the 2013 legislation was struck down since it sought to reduce benefits to current retirees, which violated contract laws.

Nationally, $1.1 trillion was lost to public pension funds by March 2009. Since then, nearly every state has implemented substantial public pension cutbacks.

PERS financial health is tied to a presumption of a 7.5 percent return—sufficient income to pay currently retired public workers' pensions. However, under several years of a low interest rate regime returns have been dismal, with 2.11 percent returns in 2015 and annualized returns of 6.03 percent over the last 10 years.

A more fundamental mechanism underlying the losses is the heavy investment under the Oregon Investment Board (OIB) in private equity funds, described by former Secretary of State Phil Keisling as the OIB's "appetite for riskier investment instruments that the average person can't (and arguably, shouldn't) go near." PERS Board chairman, John Thomas, warned of the losses that, "this is not a situational problem that is going to go away if returns spike a bit."

Questions have been raised about the high fees paid to Wall Street firms to manage these investments. A 2014 study by the Maryland Public Policy Institute places Oregon's investment fees as the fifth highest out of a cohort of 33 states, at a little over half a billion dollars yearly. Meanwhile, returns were substandard—within those of the bottom 10 states. The report also indicated an incestuous relationship between pension fund officials nationally and Wall Street. It pointed out that, "Pension fund executives do not want to ... endanger their career prospects of crossing over to Wall Street where compensation is higher."

Politicians from both parties and multiple pundits in the various media, including the relentlessly right-wing newspaper, the *Oregonian*, seek to paint a picture of huge and mounting pension deficits cascading into escalating public-employer pension payments, leading to the layoff of teachers, the shutting down of programs and, ultimately, the insolvency of PERS.

In its typically overwrought and disdainful style when addressing workers' rights, the *Oregonian* editorialized on September 24 that, "PERS reform must happen in the 2017 legislative session. Only the Legislature—not cities, not counties, not other jurisdictions—can do this. The fortunes of the state ride on it. Lawmakers preparing now for the session should think hard and show that they can summon the political will and creativity to take on the PERS beast: again."

Republican legislator Tim Knopp stated, "The only long-term solution to eliminating crippling PERS liability is to establish a market-based fair retirement plan for new public employees that mirrors retirement plans found in the private sector." He added, "If we don't reform PERS now, Oregon won't be able to honor its commitment to hardworking PERS recipients in the future without massive cuts to schools, senior programs and health care." These policies have been

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promoted jointly with Knopp by Democratic legislator Betsy Johnson in their Bipartisan PERS Solutions Work Group.

Already, new public employees are being forced by the union-supported Democratic-dominated legislature and Democratic governors, into inferior plans: Tier II was passed in 1995, and then OPSRP (Oregon Public Service Retirement Plan) in 2003. Tier II raised retirement age and eliminated the guaranteed pension of Tier I. Under OPSRP, retirement age was increased even further and benefits could be less than half of that provided to members of the original Tier I plan.

What all these forces—the media, Democratic and Republican politicians and their respective parties—have in common is a refusal to place the blame for the dismantling of education, social services and even PERS itself on the real culprit: the systematic implementation of pro-corporate tax cuts that have proliferated in Oregon over the last three decades and decimated its tax base. They refuse to name the culprit since they themselves have played the central role in promoting these tax cuts. Instead, they attack ordinary workers for seeking to defend the right to a decent pension to protect their later years.

Since 1977, Oregon corporate income taxes has declined from 18.5 percent of all income tax paid to a current 6.7 percent, nearly a two-thirds decline. Using various tax loopholes over 250 Oregon corporations paid no taxes in 2013. In fact, the Oregon Lottery (state-supervised gambling) provides more income to the state than corporate taxes.

Along with income tax cuts, various property tax relief measures have granted outsized benefits to the corporations. Measure 5 followed by Measure 50—both passed in the 1990s—first reduced tax obligations and then locked those reductions in. Oregon ranks dead last out of 50 states in business taxes. In 2013, both Nike and Intel won special tax deals from Democratic governor John Kitzhaber that calculated these multi-billion-dollar corporations' taxes solely on in-state sales.

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