

RETIREMENT NEWS YOU CAN USE!



OREGON LEGISLATURE PASSES PERS REFORMS

Changes to the Oregon PERS system made headlines again as the 2019 Oregon Legislature ultimately responded to mounting pressure to address the rising cost of the PERS pension system by narrowly passing PERS reform legislation — Senate Bill 1049.

The sense for urgency this time around stemmed from HB 3427 – the \$2.8 billion corporate tax bill that went toward funding Oregon’s schools. The bill originally garnered much opposition from the business community due to the multi-billion gross receipts

tax levied on businesses. In a deal made with tax opponents, legislative leadership agreed to include PERS reform legislation in addition to new taxes.

PERS reform plan

On Friday, May 10th, Speaker Tina Kotek (D-Portland) and Senate President Peter Courtney (D - Salem) unveiled their plan to tackle PERS costs. Under their plan, Tier 1 and Tier 2 members – those who entered the PERS system before 2004 – faced a 2.5 percent diversion from their individual account contri-

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The Oregon PERS Retirees, Inc. (OPRI) is the state’s largest organization that exists solely to protect the rights and benefits of Oregon’s retired public employees. We serve retirees like you by monitoring PERS disbursements, advocating for you at the Legislature and, when necessary, defending you in court. To learn more, please visit our website: www.opri.org

PERS REFORMS—CONTINUED

contributions to pay down the system's pension debt. Tier 3 and Tier 4 members (those hired in 2004 or later) faced a lower diversion of 0.75 percent under their plan. Public employees earning less than \$30,000 a year would be exempted. Of note to current retirees, the legislative plan eliminated the '1039 rule' for retirees, but requires public employers to continue to make PERS payments for re-hired retirees and prohibits re-hired retirees from collecting additional PERS benefit.

Governor's original PERS plan met with opposition

Governor Kate Brown presented her own plan to curb PERS pension debt in April, which received significant pushback from both business groups and public employee unions. Her plan included sweeping \$486 million in reserves held by SAIF Corp, the state-owned worker's compensation insurer, to fund PERS side accounts for Oregon school districts. She also proposed taking \$400 to \$500 million in 'kicker' tax refund payments to pay down K-12 PERS liabilities.

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From top: The Joint Ways and Means Capital Construction subcommittee heard invited testimony on conceptual PERS reforms on May 10th. Union firefighters filled the hearing room to hear testimony from PERS director Kevin Olineck, middle, and Laura Lockwood-McCall, director of the State Treasurer's office, bottom.

PERS REFORMS — CONTINUED

The Governor's plan called for active Tier 1 and Tier 2 members to divert 3 percent of their IAP contributions to support the pension. Employees' first \$20,000 in salary would be exempt from the diversion, and other Tier 3 and Tier 4 members would divert 1.5 percent of their IAP contributions after exempting the first \$20,000 in salary.

promises made to public employees and the need to address growing PERS costs. In a tense vote that followed on the House floor on May 30th, Speaker Kotek was able to marshal the votes needed to pass the bill, but only after standing "at ease" for nearly 30 minutes while she lobbied members of her caucus. In the end, two representatives



Legislators responded to mounting pressure to address the rising cost of the public employee pension system by narrowly passing PERS reform legislation.

Business opposed the raid on SAIF reserves, stating that it could destabilize the state's worker's compensation program and lead to rate increases and fewer resources to compensate for workplace accidents. Public employee unions objected to the steep diversions from IAP contributions. Ultimately, the Governor's plan did not survive.

SB 1049 passes

SB 1049, the legislative plan, cleared its first hurdle in the Senate by passing with a bare 16-vote majority. Many legislators cited the difficulty of the vote, feeling torn between

changed their "nay" vote to an "aye", giving the bill the needed 31 vote minimum to pass.

The bill went to the Governor's desk and was signed into law on June 11th.

It is important to note that the passage of SB 1049 only affects current public employees and future retirees, not current retiree benefits. OPRI will continue to work to protect the benefits of current retirees.

See the chart on Page 4 for a breakdown of what you need to know about SB 1049.

PERS REFORM PROPOSALS

SB 1049 — What you need to know

- Tier 1 and Tier 2: Diversion of 2.5% of IAP contribution to support PERS pension debt
- Tier 3 and Tier 4: Diversion of 0.75% of IAP contribution to support PERS pension debt
- Public employees earning less than \$30,000 a year would be exempt; first \$30,000 exempted for all public employees
- Places a Final Average Salary cap at \$195,000, indexed for inflation
- Eliminates the '1039 Rule' for retirees, employers must continue PERS contribution, retirees may not accrue additional PERS benefit.

OPRI SUPPORTS PENSION INCOME TAX CREDIT EXTENSION



OPRI is supporting Senate Bill 198, which would extend the sunset for the tax credit for pension income from January 1, 2020 to January 1, 2026.

The tax credit provides financial relief to retired low-income taxpayers. The credit is nine percent of net pension income for taxpayers age 62 and older.

In order to take the credit, household income must be less than \$22,500 for individual filers or \$45,000 for joint filers. This excludes Social Security income.

BUSINESS GROUP FILES BALLOT INITIATIVES

Despite the passage of SB 1049, there is still an effort to pass additional PERS reforms at the ballot box. The newly-formed group, PERS Solutions for Public Services, filed several prospective ballot measures last month aimed at lowering PERS costs. The three prospective ballot initiatives are analyzed in the chart below.

In order to qualify for the November 2020 ballot, 112,020 signatures from Oregon voters need to be collected by July 2, 2020.

**Potential savings as percent of 8 years' cost increase shown as calculated by PERS Solutions, persolutions.org.*

Initiative Petition 22 — *Potential savings as percent of 8 years' cost increase: 46.0%

- 6% cost sharing for all employees
- Optional 401(k)-style retirement plan funded by equal contributions of 6% of salary for both employers and employees.
- Implement a salary cap of \$150,000 for accrual of future benefits.

Initiative Petition 23 — *Potential savings as percent of 8 years' cost increase: 38.3%

- 6% cost sharing for all employees
- 401(k)-style retirement plan funded by equal contributions of 6% of salary for both employers and employees for new hires
- Implement a salary cap of \$280,000 for accrual of future benefits for Tier 1 members

Initiative Petition 24 — *Potential savings as percent of 8 years' cost increase: 26.5%

- Employees contribute one-third of going-forward costs, based on tier and benefit levels.
- Require a study for options for a new 401(k)-style plan.
- Implement a salary cap of \$280,000 for accrual of future benefits for Tier 1 members

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Under the current leadership of this Board of Directors, OPRI has succeeded in adding a large amount of money to OPRI's political action committee and operating funds in the last two years.

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