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Explanation of my Yes Vote on SB 1049

THIS WAS A REALLY HARD VOTE.

I highly value our public employees and their public service, and I recognize that our $27 billion unfunded actuarial liability (UAL) *is not their fault*. The biggest factors that led to this burden are: a) bad decisions by policy makers long ago that kicked the can down the road by creating unsustainable benefit plans; and b) the economic crash starting in 2008. In regard to concerns about investment policies and fees, our last two state treasurers have been scrutinizing this to ensure maximum return. We need to continue to watchdog that.

1) Why tackle PERS now? Is it really a crisis when some other states are in worse shape?

In my view, YES. Employer rates have more than doubled in the last decade, forcing government employers to lay off staff and reduce programs. Even in the best of times, the spike in required contributions to pay down the UAL has led public employers to make painful cuts to teaching positions, school days, and other critical services.

If nothing is done, costs will rise on average to nearly 33% of payroll. For the two school districts in my House district, Portland Public Schools would save $51.4 million and David Douglas School District would save $9.9 million in 2021-2023 with the passage of SB 1049. As chair of the House Committee on Human Services and Housing, I am constantly seeking more resources for the Department of Human Services, where we are 1100 FTE short in Child Welfare, under-pay our residential care for high needs foster kids, and under-pay our home care workers who support our people with disabilities. Yet every biennium, DHS (like all state and local agencies) must devote an increasing share of its budget to its pension costs.

2) What does SB 1049 do?

SB 1049 will reduce the costs of PERS and protect public services. The -8 amendment improved the original bill and limits the impact on frontline workers. Employees contribute roughly 20% to the savings achieved by this plan, 80% comes from means not borne by public employees.

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Positive aspects: SB 1049 -8 lengthens the time to pay off the unfunded liability from 20 to 22 years for Tier 1 and Tier 2, requires employers who rehire retirees to pay pension costs, caps final average salary at $195,000, appropriates $100 million to the Employer Incentive fund for a 25% match to an employer's 75% contribution, adds 80% of lottery's sports betting revenue to the Employer Incentive fund for a 25% match to an employer's 75% contribution, and makes other adjustments. Note: I support extending the Tier 1 and 2 amortization to 22 years. I originally had pushed for it and for OPSRP amortization to be extended longer but learned how that is detrimental; see pages 107 and 108 in https://www.oregon.gov/pers/Documents/Board-Meetings/2019/Board-Packet-4-1-19.pdf.

Controversial aspects: SB 1049 *prospectively* redirects a portion of the employee contribution away from one's IAP and into the pension account. Prior to 2004, public employees contributed to their own pension accounts, but Oregon is now one of only two states (with Utah) where employees don't contribute to their own defined benefits. To protect the solvency of the defined benefits, this plan will redirect a portion (.75% for OPSRP and 2.5% for Tier 1 and 2) of the current 6% payroll contribution from the Individual Account Program (IAP) to help pay for the defined pension benefit. When the pension fund reaches 90% funded status, **the redirect will be suspended**. Workers making less than $30,000/year will not redirect money from their IAP.

3) Clarifying two misperceptions I've heard:

Does this plan take between 7% and 12% of my retirement? NO! This percent reduction is the estimated impact on the IAP, NOT on a member's defined benefit pension. Legislators have worked hard to maintain that defined benefit. Depending on how long someone has already worked vs. how much longer they will work, they will see a slight reduction in their combined retirement accounts. It's an estimated 1-2% reduction for a 30-year employee, and less than that for employees who worked for many more years in the past than they will in the future. I understand that this amount is still a lot for people who didn't expect any reduction; but it is done to protect the long term solvency of the defined benefit system.

If the unfunded liability dips below 90% in the future, will all employees have to pay 2.5% into their IAP's? NO! Tier 1 and 2 employees will pay 2.5%; OPSRP employees will pay .75%.

4) Changes I had advocated for:

a) While it is hard to ask any public employee to redirect funds from their IAP to the pension fund, I felt that OPSRP members especially should not redirect theirs. Their benefits were significantly slashed when this third tier was established in 2003, and seem to be sustainable unless the market tanks. If they pay any, it should be miniscule.
b) The suspension of the redirect when the pension fund hits 90% funded should be separate for Tier 1, Tier 2, and OPSRP: Tier 1 and 2 should stop their IAP redirect when their portion of the UAL hits 90% funded, and OPSRP (if they have to pay anything) should stop their IAP redirect when their portion of the UAL hits 90% funded.

c) Rather than have a "cliff" at $30K/year (which is no longer a living wage in Oregon), we should phase this in between $36K-$48K/year: employees making less than $36K don't pay; those between $36K-$48K/year pay increasing amounts until they hit the required contribution at $48K/year and above.

d) I support devoting a major part of the kicker and SAIF reserves to pay down the PERS UAL. Since SAIF reserves are off the table, I will continue to push for the kicker allocation. The sooner we can get the pension fund to 90% funded, the sooner we can suspend the IAP redirect. I would also lower the final salary cap from $195K/year to $160K/year, and I'd further reduce the COLA on the portion of benefits over $100K/year *prospectively* to make up for lost savings from my suggestions above.

5) What would the short and long term impacts be if we didn't pass SB 1049?

Although my changes were not incorporated and the bill is far from perfect, I appreciated the *large majority of the bill that will preserve public budgets and services without major sacrifice.*

I truly felt that without SB 1049, public employees would risk layoffs and Oregonians would see cuts to critical services. Passing SB 1049 heads off Republican calls for deeper benefit cuts, reduces the likelihood of extremely unfair PERS reform ballot initiatives, and reduces the chance of repealing the Student Success Act at the ballot box by stakeholders who might fight it unless there is also cost containment. *Our super majority in the legislature can't protect us from tax repeals at the ballot box.*

I have always been in favor of raising revenue from those who can most afford to contribute to the public good – corporations and high-income individuals, but this has not been politically feasible. My highest priority bill after passing Tenant Protections has been HB 3349, Mortgage Interest Deduction reform to raise $160 million/biennium by eliminating second homes used for vacation purposes and to pare back the MID for filers making over $200K/yr AGI, capping it at $250K/year AGI. That has no path this session but remains my top priority going forward. After passing $1 billion/year in business revenue for the Student Success Act, there was no path to raise taxes to cover PERS. We needed to tackle cost containment before we are able to pass further revenue raising measures.

In future sessions, I will continue to advocate for some of my changes above, especially to raise the $30,000 exemption for the redirect. In this and every session, I will continue to advocate for more resources to pay down our UAL and to increase the staffing and support we so badly need in our schools, housing, human services, and other vital services.

Sincerely,

Alissa Keny-Guyer