



May 31, 2019

TO: Chief Clerk Sekerak
RE: Vote Explanation for SB 1049

Dear Chief Clerk Sekerak,

I wish to submit the following explanation for my vote on Senate Bill 1049.

I will start by saying this was an incredibly hard vote for me. As a former public school teacher of 42 years and a Tier 1, 2, and OPSRP recipient this issue is intensely personal for me. Yet, as a State Representative elected to serve Oregon, I cannot ignore the State's growing \$27 billion unfunded liability.

If the legislature does nothing, public employer rates are scheduled for another round of increases in the 2021-23 biennium. Every time this happens funds are redirected from services like schools and first responders to cover the cost. In the last five years, the cost that public employers have had to pay to cover pension debt obligations has nearly doubled. Like many of my colleagues I believe finding balanced cost-containment strategies that could help stabilize Oregon's PERS budget in the long-term is critical.

Yet I must state I feel this is not the fault of our public employees in any way. The reality is that Oregon's budget challenges are more complicated than rising employee pension and health care costs alone. Our state faces a long-term, structural imbalance due to many choices legislators and voters have made over the years in addition to pension obligations.

A major turning point occurred in 1990, when voters approved Ballot Measure 5, which shifted the responsibility for funding K-12 schools from local property taxes to the state general fund. Suddenly, the state had a huge new budget obligation for one of Oregon's top priorities – with no increase in revenue to pay for those costs.

The Legislature has made significant reforms to reduce PERS costs in 1995, 2003 and 2013. After the Legislature passed additional PERS reforms in 2013, the Oregon Supreme Court ruled that amending benefits that workers already earned is unconstitutional, significantly limiting past ideas and thinking on ways to adjust the system to reduce the State's unfunded liability.

SB 1049 represents several years of work and is the legislature's good faith effort to remedy the PERS liability in an ethical and legal way, while limiting the impact to public employees. Democrats have insisted that any changes to PERS must be balanced by a significant increase in





revenues, particularly revenues coming from the corporate sector (which has seen its share of contribution to the General Fund reduce over the years at the expense of individual taxpayers).

The challenge is that legislators are constitutionally required to have 3/5 majority votes in both chambers to raise revenue. While my colleagues and I have tried many times to find the votes to do this, we simply have not gotten bipartisan support for this proposal in the many years since Measure 5.

SB 1049 represents a multipronged approach to decrease the State's PERS liabilities. The largest savings come from re-amortizing Tiers 1 and 2 of PERS liabilities, which is akin to refinancing a loan. This comes after much careful analysis and thought on the best way to manage risk within the retirement system. The rest of the savings come from redirecting a portion of worker's Individual Account Program (IAP) into a new account designed to fund 90% of the PERS liability within the next 10 years. Tier 1 & 2 employees will see a 2.5% redirect, and OPSRP or tier 3 employees (including all new employees) will see a 0.75% redirect. Those making under \$30,000 annually will see no change. Furthermore, this bill does nothing to change a public employee's assured benefit through their pension, which is separate from their IAP.

While it was difficult to vote to redirect any employee contributions, I believe inaction would have caused a much worse result for public employees and ultimately for communities across the state. Individuals and organizations are making very real threats to put PERS reform on the ballot. One threatened ballot measure would create yet another retirement tier, denying future employees access to a pension entirely, and instead create a system where their retirement comes entirely in the form of a "defined-contribution" or 401K-style program. Such a ballot measure would have a good chance of passing and thus, inaction could have disastrous impacts on PERS and state employees.

Again, I will reiterate how hard this vote was for me, and I sincerely wish legislators could have worked in a bipartisan fashion to find solutions that even further limited impacts to our public employees. I believe SB 1049 represents a balanced, ethical, and legal way to continue to manage Oregon's unfunded liability. Ultimately, I believe there will be long-term benefits for our entire state with this legislation, and I remain as committed as ever to ensuring our public employees are compensated in a way that they deserve.

Sincerely,

Representative Susan McLain

