



The Oregon Public Employees Retirement System

HISTORY

OREGON
PERS



*75 years of serving
those who serve Oregon*

Third edition

Cover photo: Oregon Gov. Earl W. Snell signs legislation creating the Public Employees Retirement System on March 26, 1945.

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Introduction: pre-PERS

Emergence of pension plans in the U.S.

Pension programs were essentially unheard of when pioneers embarked on their arduous journeys across the Oregon Trail in the mid-1800s. Perhaps some were aware of early U.S. fraternal organizations that provided actuarially based life-insurance plans. Maybe a few recalled a controversial pamphlet Thomas Paine published in 1795 calling for the establishment of a public system of economic security that would pay annual benefits to every person age 50 or older.

It is more likely, however, that pioneers had more immediate concerns as they took their families on a perilous trip to the magnificent Oregon Country.

Ironically, these same pioneers were part of the sociological changes that would increase the necessity of pension plans. As the traditional extended family broke down into the smaller nuclear family unit, the population became more mobile, and it was no longer safe to assume family members would live close enough to each other to care for elderly parents or grandparents.

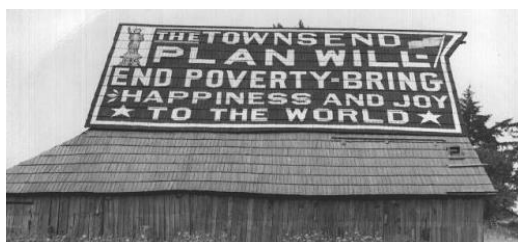
As villages and small cities crept across the Oregon landscape, opportunities for businesses lured young men and women away from traditional homesteads. Dependent on wages rather than on self-sufficiency, the economic security of many Oregonians could now be threatened by recessions, layoffs, injuries, and old age.

The idea of a pension plan was no longer a peripheral concern, and retirement programs were mentioned with increasing frequency.

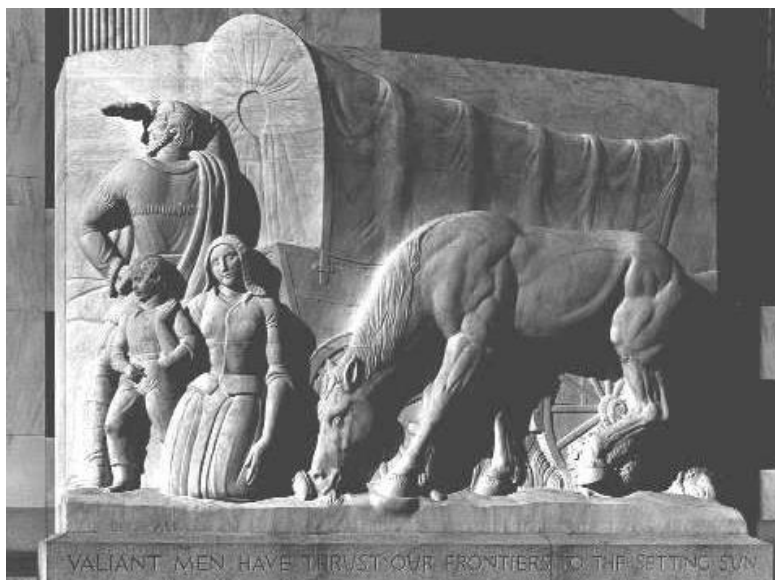
First U.S. pension plans

In 1857, the New York City police established the United States' first municipal benefit plan. Within a decade, Civil War veterans and their families were receiving pensions. In 1869, New York City teachers had a voluntary retirement system plan, and in 1895, the first compulsory teachers' retirement systems were formed in San Francisco and St. Louis. The concepts of retirement and disability funds were now more than speculation.

Perhaps the most important event that forced the nation to realize the necessity of pension plans for economic security was the Great Depression. As the 1930s rolled in, millions of people were unemployed, banks and businesses had failed, an estimated two million men wandered the country hoping to find work, and the majority of the elderly in America were living in poverty. Clearly, something had to be done.



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“Covered Wagon,” one of two relief sculptures evoking Oregon’s pioneer past that stand outside the state capitol’s main entrance.

U.S. Sen. Huey Long, a radical populist, introduced a program in 1932 called Share Our Wealth. Included in his proposed solution to the nation’s economic crisis was the concept that everyone over the age of 60 would receive an old-age pension.

That same year, Dr. Francis E. Townsend, a California physician who found himself unemployed without savings, took up the battle for the elderly and drafted the Townsend Old Age

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Revolving Pension Plan. Under this plan, the government would provide a monthly pension of \$200 to every citizen over 60 years old. Funded by a 2% national sales tax, the plan had three eligibility requirements: the person had to be retired, the person could not have a criminal record, and the pension had to be spent in the United States within 30 days of receipt of the funds. His plan was published in a newspaper in 1932, and within two years there were more than two million people actively promoting the Townsend Plan.

Upton Sinclair was yet another person to propose a pension plan. Called End Poverty in California, the plan would direct the state to give \$50 a month to every unemployed person over age 60.

While none of these plans came to fruition, the support they received made it clear that the time for a pension plan had come. Indeed, the United States was somewhat slow in getting such a plan off the ground. England had started its first program in 1834, and 34 other European countries had some form of government-provided, old-age insurance by 1937. Canada had passed its first old-age pension program in 1927.

Social Security

In June 1934, President Franklin D. Roosevelt appointed Frances Perkins as head of the Committee of Economic Security. He provided her with a 23-member advisory council represented by labor, industry, and the general public to look into a plan to protect the unemployed and the elderly against financial destitution. Despite Perkins' fears that her revolutionary bill for the establishment of such a program would not survive, it passed both houses. Roosevelt signed the Social Security Act into law in August 1935.

For many, fears and worries about old age were eased. Unfortunately, Social Security was not available to most government employees, and Oregon public employees were among those not covered by the act. This was a matter of serious importance to thousands of Oregon's state and local employees, and interested parties began to look for solutions.



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President Roosevelt signs the Social Security Act, August 14, 1935.

Oregon's early retirement plans



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Early Oregon firefighters.

Oregonians were not idle while other states looked into pension programs for their public employees. In 1902, City of Portland voters established the first pension system for fire and police members. That system failed financially, however, so in 1913, the state established the Fireman's Relief and Pension Fund. In 1918, voters established the Policeman's Relief and Pension Fund. In 1911, Oregon teachers organized a statewide pension fund. However, while these funds marked a beginning of retirement plans for public employees in the state, it did not signal the beginning of a trend, and numerous other proposed retirement plans failed to pass.

In 1933, the Oregon Legislature passed the Old-Age Pension Act, establishing a pension program for all Oregonians over

the age of 70. Each county was in control of its own residents, and the pension fund was available to anyone who met specific criteria. Employees from both the public and private sector could qualify. Payments were low, however, and the program was short-lived.

When Social Security was signed into law in August 1935, many employees in private industry breathed a sigh of relief. However, because it excluded public employees, there was still much work to be done to provide economic security to all elderly.

The need for a retirement system for state and local government employees was no longer contested. While the demand for a pension program was concentrated in Portland and Multnomah County, it was widely believed that a retirement system would both improve the quality of life for retirees and contribute to the well-being of government organizations.

Momentum for a statewide retirement plan

Herman Kehrli, executive director of the League of Oregon Cities, had been concerned about pensions for some time. In 1934, he addressed the Portland City Council, saying, "The need for an orderly retirement program in the city service has grown more and more acute and the financial insolvency of the existing system has become obvious."

Expressing his concern over the declining reserves in the existing police and firefighters' funds, Kehrli stressed the need for actuarially sound principles as a foundation for a single system for all municipal employees.

The retirement issue became increasingly significant over the next five years, involving public employees at the state, county, and municipal levels. Discussions moved beyond the Portland City Council and were taken up by the state legislature. A number of pension-related measures came up during this period, but all were defeated.



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Gov. Charles Sprague.

Gov. Charles Sprague appointed a committee of 25 state and local government representatives in 1939 to study the feasibility of a retirement program in Oregon. The committee prepared a majority report recommending the establishment of a single pension system to cover all state and local employees not already members of an established plan. A bill was drawn up, but it contained a number of compromises that were not satisfactory to many who had actively supported pension legislation for public employees. The bill was not even introduced during the 1941 session.

Gov. Sprague did, however, address the legislature about his committee's findings: "This committee has studied annuity systems and prepared a plan which is entirely sound from an actuarial standpoint. I realize there is much opposition to a retirement system for public employees; but, as federal Social Security is extended to cover more and more groups of citizens, the state and local units of government must move to set up suitable retirement plans for their employees."

Hidden pensions

Momentum was now stronger than ever, and a group of dedicated individuals, led by Kehrli, doubled its efforts to come up with a solution. Their findings revealed that, according to the January 1942 U.S. Bureau of the Census report, only 7.6% of the public employees in Oregon were covered by some retirement system, while 46% of state and local employees of other states were covered.

Addressing members of the Oregon Finance Officers' Association and the League of Oregon Cities, Kehrli summed up the problems Oregon and its public employees were facing:

Too little attention is given to the loss of efficiency and to the cost involved in the 'hidden pensions' that are being paid in the form of salaries to superannuated employees. Most public agencies follow the practice of keeping their employees on the payroll just as long as they are able to report to their place of work. At least two of them in Oregon, however, have recognized the policy of paying 'hidden pension' salaries on a full-time basis and have made provisions for carrying superannuated employees on a special payroll. The City of Portland has for some years been paying superannuated employees

who are not members of a retirement system a pension from \$1 a day to \$100 per month. The employee makes no contribution toward this pension and has no guarantee that it will continue to be paid. The State Board of Higher Education has also adopted the policy of providing a part-time job at half-salary to employees who reached the retirement age of 70. These two agencies are spending over \$100,000 per year for this pension payroll. Where a definite policy of this type exists, it is perhaps easier to see just what is happening and what the price. But it is a fact that the same thing is happening and the cost is greater in these departments and in those cities and counties that have not established a retirement age but continue their employees on at full salary. A planned retirement system would do in an orderly way what is now being done in a most haphazard and expensive way.

Other factors

Attracting qualified employees to civil service was another major factor in setting up a retirement system. An article by I.A. DeFrance of the League of Oregon Cities that appeared in the August 7, 1944, issue of *Welfare of State and Local Employees*, addressed this issue:

The state and local governmental service is in competition with the Armed Services, war production, and private industry and is losing the contest to the more attractive wages, Social Security, and retirement benefits offered by private industry. There is a serious shortage of competent help, and if the state and local governmental agencies are to secure and retain their fair share of the trained and skilled personnel of the nation, they must make their service more attractive by providing social security and retirement benefits equal to this offered by private industry. The welfare of the state and its future for decades depends upon the type of personnel attracted to the public service after the war.

Nearing the finish line

The problem gained increased public attention. Kehrl, DeFrance, and scores of municipal and state organizations worked around the clock to gather material to convince legislators and voters that it was imperative to establish a pension system for public employees. Telegrams, memos, and letters were passed back and forth between Kehrl and administrators of retirement plans in states across the country. Insurance companies were solicited for actuarial estimates, and figures and charts piled up in Kehrl's office. Finally, in the winter of 1945, House Bill 344 began to take shape.

The 1940s: PERS' early years



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Aerial view of Oregon capitol, circa 1940.

House Bill 344 was introduced to the 1945 Oregon Legislature with considerable support and high hopes. *The Oregon Statesman* ran an editorial by former Oregon Gov. Sprague on February 9, 1945, in support of the bill. “If at all possible, a general retirement system ought to be established at this session of the legislature. Perhaps it should be done even if it doesn’t seem to be ‘possible’ because there will always be reasons for postponing it and if it is ever to come, it will only be by taking the leap — just as business had to do with unemployment compensation.”

After discussing the bill and its supporters, the writer continued, “The legislature ought not to turn these bills down, but should make every effort to enact them at this session. They will promote stability in employment, end fears of political reprisals, and standardize employee relations for the state. If these measures are not adopted, there is the danger that more radical efforts may be made or more radical organizations attempted. The Employees Association has presented bills with real merit, which ought to be approved now.”

Distinguishing features of the bill were:

- The new system would be integrated with existing public employee retirement systems.
- The system would be open to all public employees except employees of political subdivisions that opted not to participate, public employees in other pre-existing systems, and employees working for a public employer with fewer than five full-time employees.
- All members would have separate accounts showing contributions, interest earnings, and deductions.
- The state treasurer would act as custodian and supervise annual audits and an actuarial valuation at least every four years.
- There would be both retirement and disability provisions.
- Funds would not be subject to taxes or to bankruptcy.

Suspense built as the 1945 legislators held their longest session in the state’s history. Finally, on the second to last day of the session, March 17, 1945, the bill passed.

PERS becomes official



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Gov. Earl W. Snell.

After nearly half a century of struggle, PERS was official March 26, 1945, when Gov. Earl W. Snell signed it into law. While it was a major victory for Oregon public employees, another victory was far more staggering and grabbed the headlines of *The Oregon Journal*: “Germans Licked, Ike Says,” and “Patton Halfway Across Germany.” A column in small print listing bills the governor had signed the previous day appeared on the front page, but the PERS legislation had been omitted. *The Oregonian* was more thorough, with a headline in section two reading, “Retirement Bill Becomes Law with Snell Signature.”

The legislation became effective July 1, 1946. Oregon had benefited from the experiences of existing public employee pension systems and quickly earned a reputation for developing one of the best retirement programs in the country.

The 1950s: settling-in years



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Oregon highway, circa 1950.

amount of retirement at \$125 a month for an employee who retired after 30 years of service. While this amount was considered an adequate pension when the retirement law was passed, under existing economic conditions, it clearly was not sufficient. In reality, very few retirees were receiving as much as a \$50-a-month pension. With room and board on a small room costing \$12–\$16 a week, the average pension check simply did not stretch far enough.

According to an Oregon State Employee Association (OSEA) publication, state employees, teachers, and city and county employees pressured the legislature for a repeal of PERS during the first part of the decade. “Those who were interested in keeping PERS were strangely silent during 1952 and into the middle of the 1953 legislative session. Therefore, many members of the legislature were thinking in terms of scrapping PERS altogether. But when the cry to cave (*sic*) PERS (led by the OSEA) became loud enough, thinking began to change in direct proportion to ‘the sound and the fury.’”

Social Security integration

Since the implementation of Social Security in 1935, the Social Security board had recommended it would like to see Social Security extended to state and local employees. For the first 15 years of the national system, there was considerable debate whether to admit public employees. In 1951, a state could elect Social Security coverage on a restricted basis. In Oregon, PERS set up a division to collect the funds from those political subdivisions who elected this option.

The vast majority of Oregon public employees were still not able to participate in Social Security, however.

New hope came in 1953 when President Eisenhower announced during his State of the Union Address that “the provision of the Old Age and Survivors Insurance (OASI) law should promptly be extended to cover millions of citizens who have been shut out of the Social Security System. No less important is the encouragement of privately sponsored pension plans.”

Eisenhower’s message generated immediate interest in assessing options to integrate PERS and the OASI. Governor McKay appointed a special committee, headed by Henry Kehrli, to investigate the possibility of integrating PERS with OASI.

In his methodical way, Kehrli began an exhaustive study of other state pension plans. He organized comparative studies, spent hours analyzing existing programs, and wrote countless letters to authorities in the pension field to ask advice about PERS.

Not only was the issue of combining state and federal legislation complex, it also aroused a certain degree of suspicion. Forrest Stewart, executive secretary of Oregon State Employees Association (OSEA), wrote to Kehrli on November 26, 1952, “Once the State of Oregon signs a contract with the Federal Social Security Board, it is signing away certain of its own rights and many of the rights of employees thereof for all time to come. ... (O)nce we are under OASI the federal government could and probably would set standards of employment as they have done and are doing in Public Welfare,

Early concerns and problems

Less than five years into the program, PERS members began to grumble that retirement benefits were inadequate. Indeed, inflation between 1939 and 1952 was staggering, and the cost of living had doubled. With World War II behind it, the country was beginning to focus on the future, which put retirement issues on the front line.

Resistance to retirement was still strong, and many employees of retirement age resented being forced out of the workplace. Worse, their retirement funds did not cover even their most essential needs.

In 1950, the state only had to match payments on the first \$3,000 of an employee’s annual salary. This set the maximum

UCC, and Public Health. ... The Republicans are in power now and we may have nothing to fear, but we have no assurance that some future congress or chief executive may have even more socialistic views than we have experienced in the past.”

Stewart’s views were not shared by many of the state employees he represented. In fact, the major problem from the standpoint of the employee appears to have been who was going to pay the cost of the OASI.

The governor’s committee found that many states had already found ways to supplement public retirement funds with OASI. The committee also found that to take advantage of Social Security’s 1951 start day, they would have to add OASI in 1953 or employees would lose two-and-a-half years of OASI coverage because the federal law would not be retroactive after 1953.

The committee unanimously opposed ending PERS and substituting it with OASI. “In our opinion, Old Age and Survivors Insurance was never intended, nor has it been represented, to be a complete solution to the problem of retirement. Because of its inadequate retirement benefits, we believe that future sessions of the legislature would be plagued by employee groups until this retirement problem is solved by the enactment of a supplemental plan. We therefore cannot advise the substitution of Old Age and Survivors Insurance for the present plan.”

Supplementing PERS with OASI seemed the most logical remedy. However, state employees could not be covered under OASI if they were already covered under an existing state plan. This hurdle was not insurmountable and, with ingenuity, it was cleared. A bill was submitted to the legislature to repeal PERS for long enough to adopt Social Security.

On March 19, 1953, the Oregon Joint Committee on Ways and Means introduced Senate Bill 396 to the 47th Legislative Assembly. The Public Employee Retirement Act of 1945 was repealed and replaced by the Public Employee Retirement Act of 1953. The existing plan was repealed, Social Security was adopted, and a new state retirement plan was put into place. For one day, PERS did not exist, in order to enable public employees to fall under Social Security.

Benefit changes

This change brought badly needed relief, but problems still existed with the PERS plan. Many retirees in the higher income brackets were not getting adequate coverage. Retirees who had not been in the system for long were slipping through the cracks, and disability was inadequately addressed. PERS members still wanted employers to match more than \$3,000 of their annual individual salaries. Retirement age was still a major issue, and many employees of retirement age resented that some state employees aged 65 and over continued to work while others were not allowed to.

At the request of the Oregon State Employees Association (OSEA) and other public employee groups, the 1953 legislature directed a committee to study the whole program and to bring back recommendations to the 1955 session.

Based on the recommendations, further laws were enacted, and PERS emerged with a new look. Changes included liberalization of disability benefits, more equitable coverage for police and firefighters, and improved status for people remaining in employment.

In 1956, Max Manchester, PERS’ executive secretary, wrote in a guest editorial in the *OSEA Sentinel*, “With the new Public Retirement System Retirement Law in effect and with coverage under the Federal Old-Age and Survivors Insurance program, the public employees of Oregon are in an enviable position compared to public employees throughout the U.S. It is true that some of the old, well-established retirement systems have broader benefits. However, in many instances the members of such systems do not have Social Security coverage. This coverage, especially for the younger employees who have minor children, is completely beyond that which most of us could afford through private insurance.” These traits would all be needed in the coming years.

As the decade rolled to a close, PERS was still intact, having faced and survived some serious threats. PERS had clearly established that it would meet problems head-on, would not hide from controversy, was willing to examine itself honestly, and would make whatever changes were necessary to build a strong retirement system.

The 1960s: years of change



COURTESY OF OREGON HISTORICAL SOCIETY

President John F. Kennedy at Portland International Airport in the 1960s.

The 1960s were a time of rapid change in the United States.

Civil rights, women's rights, war protests, and demonstrations made the news daily. People were examining long-held beliefs and demanding a say in events that shaped their lives. Retirement issues may not have had the drama of some of the social changes in the country, but they did not escape examination.

The Oregon State Employees Association had been active in pension issues from the onset of PERS and began a retirement education program to better inform state employees about PERS. Simultaneously, it began publishing a regular retirement-issue column in its monthly newsletter.

These two communication efforts focused

a great deal of attention on PERS, and many public employees began to worry that their pension checks were going to prove inadequate.

Need for increase in funding

Despite the fact that net earnings for 1961 were the highest ever (3.28%), there was growing concern that the system needed more funds. Suggestions to correct this included making employees contribute at the maximum rate available and raising the rate for prior service. The most controversial suggestion, one that was met with serious doubts and resistance, was to write legislation that would permit investment of 50% of PERS' funds in the three highest grades of corporate securities and in federal government-insured mortgages. To invest state funds in something as unpredictable as the stock market was considered revolutionary by some, but it was an idea whose time had come. By early 1962, bankers, representatives of investment firms, and the staff of the Legislative Fiscal Committee all favored allowing stock purchases. They believed that this alone could increase the yield of investments by at least 1%, which would increase annual benefits by 25%.

The American Association of University Professors (AAUP) evaluated PERS in the early part of the decade and issued a statement expressing some degree of dissatisfaction with the system:

We think OPERS can be classified as an above-average state retirement plan, but it falls short of our AAUP principles under the important items of immediate vesting, adequacy of benefits, and protection of purchasing power. OPERS was initiated as a minimum subsistence retirement program and with Social Security it serves that purpose. In 1946, it was a major improvement over the absence of a state-wide retirement system for public employees. Today, increased expectations of retirement pay aggravated by reduced buying power of the dollar and misguided attacks of salespeople promoting private funds focus upon shortcomings of OPERS.

Investing in stocks became an increasingly popular concept and was part of the platform for state treasurer candidates. Robert W. Straub and Howard Belton both were interviewed at length in the Oregon State Employees Association's September 1964 newsletter.

Straub supported investment in stocks. "If I were State Treasurer, I would have supported the principle of the State Investment Council. Benefits would accrue both to the State of Oregon and to employees covered under PERS. A senior, professionally trained financial specialist could earn far in excess the cost of his salary and operation of his small staff. Such large sums of money are involved that increasing earning on this money by a percentage of one percent can produce several million dollars more income per year."

Belton was far more conservative in his view and felt investing up to 50% in stocks was too risky. Straub won the election and was a strong advocate for PERS' right to invest in stocks. Straub would also later be elected governor, serving from 1975 to 1979.

Dissatisfaction with retirement benefits continued, and Judge Lloyd Le Master wrote an article in the *Corvallis Gazette-Times* in December 1964 calling for several changes. He pointed out that PERS was established to provide the retiree with half of his last five years' average salary at age 65, after 30 years of service, with an effective maximum benefit of \$100 per month. Under this plan, a distinguished dean at Oregon State College (now known as Oregon State University) could retire on \$52.65 a month. Le Master wrote, "Well, here we are 20 years later, and the system is 20 years older but we retired a distinguished and ranking scholar last year at the age of 70 under PERS on \$97 a month. Yes, retirement pay went up from \$52.65 to \$97 in 20 years, while a carpenter's pay went up from \$6 per day to \$24 and inflation jacked the price of everything comparably in the same 20 years. In reality, in real wages (purchasing power) the \$97 becomes \$24 of the kind that were used to retire the dean 20 years ago."

Much to the dismay of the many people who had worked for change in the existing system, the 1965 legislature enacted only one minor retirement bill. Jerry Liebertz, Oregon State Employees Association retirement committee chairman, came down hard on the legislators, writing in the association newsletter:

Let's face it — this was not a good legislative session insofar as retirement was concerned. It is interesting to note that the legislature passed many bills that were favorable to state employees such as the salary increases, the private car mileage bill, the parking facility for the State Office Building in Portland, etc., but seemed determined not to pass any bill that would improve our retirement program. The treatment of this bill ... is an example of the complete apathy that most lawmakers show toward our retirement program. The same senators and representatives who keep saying how the program should be improved seemingly would not do any improving.

Perhaps legislators did not deserve such harsh condemnation. The reason they gave for failure to pass new PERS legislation was that the approach was "patchwork" and needed to be deferred until a comprehensive study was done and reform coordinated. The legislative fiscal committee received \$10,000 to conduct an up-to-date study of the retirement law. One of the major objectives would be to consider liberalizing the investment of funds.

Campaign to improve PERS

For the next year, interested parties worked around the clock to make sure PERS would not be ignored when legislators met again in 1967. The Oregon State Employees Association planned a day-long conference in October on improving PERS, urging all members to participate. More than 200 interested representatives throughout the state attended. The three major areas of concern were finding a method to ensure employees contributed maximum amounts to their funds, designing legislation to permit investment in common stocks, and finding a way to help people who had been in the system for many years but whose contributions were limited by legislation and low salaries.

Under the direction of Liebertz, the association's retirement committee completed an extensive study of retirement systems in other states. As reported in the April 1966 Oregon State Employees Association newsletter, "The committee's conclusions that Oregon's system could best be improved by going to a guaranteed benefits formula in place of the present money-purchase system became the basis of a proposal which was accepted by the conference steering committee and referred to participating organizations."

To ensure legislators would heed the need for change in the next session, Liebertz and his committee set up a series of local retirement conferences participated in by state, county, city, and special-district employees, in addition to public officials.

The subcommittee created to study PERS improvement came to the Legislative Fiscal Committee with a number of recommendations. In July 1966, the fiscal committee failed to pass the recommendations because of a tie vote (four to four).

However, in October of the same year, the same committee reconsidered its decision and voted to

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accept the recommendations after all. It prepared legislation to submit a bill to make basic changes in the retirement system to the 1967 legislature. Proposed changes included:

- Retirement benefits would be based on a combination of Social Security, employee annuity, and employer formula pension equal to 50% of the final average salary after 30 years of service.
- The employee annuity portion of the retirement benefit would be based on mandatory employee contributions of 3.5% of the first \$6,600 in salary, and 7% of salary over \$6,600.
- The employer portion of the retirement benefit would be based on a formula.
- There would be no change in prior service benefits, but the formula for current services would be provided for all employees retiring after the effective date of change.
- Disability retirement would be permitted at any time up to normal retirement age, based on a more stringent definition of disability.
- Funds would be liberalized for investment in stock.

PERS members became involved in ways they never had before. Retirement meetings were organized and packed with employees wanting to hear what this new legislation would mean. Activists thought of unique ways to gain support. One state employee, George H. Dow, spent three of his lunch hours walking around the Capitol mall wearing a hand-painted sandwich sign that read,

“State Employees
Your Retirement System is NOT ADEQUATE!
Do something about it!
Attend the retirement meeting 7:30 P.M. Wed. Nov. 19.”

Governor Tom McCall supported the legislation:

We are in a time of inflation and high employment. I have personal experience with the difficulty of recruiting top quality people at the available salaries and personal knowledge of the real sacrifices made by some who have accepted positions in my administration. ... At all levels, our state employment has shown heavy turnover. This requires expensive recruiting and training programs and threatens a real loss of competency if not checked. ... It seems unwise to start this new benefit (a \$2 contribution by the state toward the payment of employee medical-hospital insurance premiums) before providing adequately for the major fringe benefit now offered. I am speaking, of course, of retirement. The Legislative Fiscal Committee has just compiled an extensive review in this area. I endorse its recommendations for a major revision and improvement in the state retirement plan.



The Oregon Investment Council was created in the late 1960s to invest a portion of the Oregon Public Employees Retirement Fund in stocks.

Stock investment

The tremendous efforts of the Oregon State Employees Association, the Oregon School Employees Association, the Oregon Education Association, PERS, and other organizations paid off, and on May 12, 1967, a bill with numerous changes to PERS sailed through the house without a dissenting vote. It was sent on to the Senate Financial Affairs Committee where it was amended to include retirement benefits for legislators. The bill was signed into law and became effective January 1, 1968. Many applauded this bill as overhauling the system.

In addition to a change from “money purchase” to a guaranteed pension computed by formula and a change in employee contribution rates, a far-reaching change was made: The Oregon Investment Council (OIC) was created to invest a portion of the fund in stocks.

No time was wasted protesting the change of investment policy. Marion County Circuit Judge Val D. Sloper declared the law creating the Oregon Investment Council unconstitutional on July 29, 1968.

A “friendly” suit to contest the law was filed by former Gov. Charles A. Sprague and Fred H. Paulus. Defendants were then State Treasurer Robert W. Straub and members of the OIC: Straub, Max Manchester, W.P. Stalnaker, Howell Appling Jr., and Don Ellis. Sloper concluded that the law violated a constitutional provision against the state having an interest in the stock of any company. He also ruled that the act violated the constitution in that it required the Oregon Supreme Court to rule on the validity of each investment that, he said, would require the court to exercise and execute rather than to act in a judicial function.

Two years later, the Supreme Court overturned the lower court’s decision and finally, nearly two years after the 1967 legislature passed laws creating the OIC and authorizing it to invest a portion of PERS in common stock, the investment program was underway. The OIC was made up of the state treasurer, two representatives of PERS, and two persons appointed by the governor. The first firms chosen by State Treasurer Straub to oversee the funds were Transamerica Investment Counselors Inc., of Los Angeles; Capitol Guardian Trust Co. of Los Angeles; and Fayez Sorofim Co. of Houston. The initial investment was \$42 million, which was 10% of the fund.

PERS members had the option of investing part of their funds in this variable annuity program. Initially, once a member opted to do this, the election was irrevocable. While early figures show that members did not leap on this opportunity, they were nevertheless excited about it.

As the decade came to a close, there was significant support from an ad hoc committee organized in Salem for proposed legislation to help some career state employees who withdrew their retirement contributions in 1953. According to Don Parker, chief counsel for the Department of Agriculture, “The 1968 retirement law, however unintentionally, seriously hurt employees who were between 35 and 50 years of age in 1953 and who have prior service credit, or any retirement credit for years worked prior to 1953.” This, as well as other concerns, would be addressed in the immediate future.

The 1970s: years of growth



COURTESY OF THE NATIONAL ARCHIVES

Student anti-war protest circa early 1970s.

The social changes and political upheavals of the 1960s continued into the 1970s, exacerbated by Watergate and ensuing mistrust of government. The media blasted the public with images of young people demonstrating and stories of the drug culture and the sexual revolution, but Middle America was still conservative and wanted secure jobs and financial stability.

Oregon state employees were frustrated by high inflation and low wages. They held rallies to draw attention to their demands for higher pay and better working conditions. With the recent overhaul of PERS, retirement issues took a back seat for a while.

Big payments, high earnings

By January 1970, 5,388 PERS members had signed up for the variable annuity fund. In April of the same year, 9,000 people who retired before January 1, 1968, received pension checks three times the normal monthly check as a result of the revised PERS retirement formula. Otherwise, things were relatively quiet on the retirement front.

James L. McGoffin became the PERS' executive secretary in 1970 and promptly sought ways to improve the retirement system. He promised that PERS would break with tradition and become a "proposer" of retirement improvement changes rather than a mere administrator of the system. Months later, McGoffin announced that PERS earnings for 1970 were the highest ever.

What would become a major PERS development emerged in 1970 out of inadequate wages paid to state workers: the concept of employer pick-up. Employees and employers alike began to consider the idea of employer pick-up, a concept in which employers would pay employees' retirement contributions in lieu of an increase in wages.

A second idea bubbled up as a result of member confusion over their benefits. Some PERS members found the changes and options confusing and talk of pre-retirement counseling was heard with increasing frequency.

New bills mean bigger pensions

The Oregon Education Association, the Oregon State Employees Association, and Oregon School Employees Association again formed a consortium to review provisions and benefits of PERS and made recommendations to the PERS Board and the 1971 legislature. The five major areas were:

- Employer pension formula would be changed to increase average benefits of retirees.
- Employees would have an annual option to stop contributions to the variable annuity program.
- There would be more liberal death benefit provisions.
- Cost-of-living adjustment would be tied into pension benefits.
- The conference would support legislation to help those currently retired.

The bill passed, much to the delight of PERS employees. State employees would get bigger pensions because of the change in the benefit formula. Changes to beneficiaries were also made, and an Oregon State Employees Association spokesperson called the PERS death benefits "one of the greatest and most unpublicized fringe benefits granted to state employees by the '71 legislature."

The new law also established a basis for a cost-of-living adjustment for retirees. The adjustment was limited to 1.5% with the stipulation that in the event of a decrease, pension checks would never drop below the original amount awarded to each retiree.

A bill allowing the state to invest 25% of the fund was also introduced and passed. Two New York firms, Jennison Associates and BEA Association; Rosenberg Capitol Management of California; and Columbia Management Company of Portland were selected to handle an additional \$90 million in trust fund money. State Treasurer Straub announced the only guideline for investment would be growth and that “investments must be in conformity to those which men of prudence, discretion, and intelligence would make with their own funds.”

This guideline would be significant for many years to come. In August 1971, the PERS fund was valued at \$430 million and earned an average interest rate of 5.67%.

Encouraged by the changes, the Oregon PERS Conference Steering Committee, organized under Oregon State Employees Association leadership in 1966, began studying proposals for further PERS improvements to be submitted to the next legislature. One of the ideas the conference intended to pass on to the legislature was the idea of using unused sick-pay in calculating benefits. Changes in retirement age were also a concern.

A new law passed in 1973 achieved a number of these goals:

- Increased the percentage factor used in computing retirement benefits.
- Permitted employees to retire at age 60 after 30 years of service, at 62 after 25 years, or at age 57 after 20 years.
- Increased the cost-of-living adjustment from 1.5% to 2%.
- Granted a 25% increase in benefits to employees who retired before 1968.

Public employees received these changes with enthusiasm. Early in 1974, the PERS Board convinced the legislature of the need for pre-retirement counseling, and a series of seminars was set up to cover such topics as retirement benefits and the available options, disability benefits, Social Security benefits, Medicare, and other issues related to retirement. PERS set up satellite offices in Salem, Eugene, and Pendleton for retirement counseling.

Concerns over stock investments

All seemed to be well. But the economy of the country was in turmoil and, with funds invested in stocks, PERS was bound to be affected. In 1974, PERS lost money as a result of poor stock market performance. Senate President Jason Boe (D-Reedsport) appointed a committee to review the state’s investment policies involving PERS funds after a report that none of the 87,000 public employees who were members of the retirement system earned any return on their accounts because of stock market losses. Despite the fact that Oregon’s stock investment program had a better yield than most in 1973, alarm spread quickly.

James A. Redden, who succeeded Straub as state treasurer in 1973 and who was a member of the Oregon Investment Council, was quick to point out that employees suffered only a “paper loss.” He predicted future market gains would replace the loss.

District meetings were held to explain PERS investment policies. The meetings confirmed that the average employee was not aware of how funds were invested nor what benefits were derived from the investments. After attending the meetings, however, the majority of employees felt no change should be made in investment policy.

State Rep. Sam Johnson (R-Redmond) was not convinced and introduced a bill that would allow public employees to have none of their retirement contributions invested in common stocks. His bill proposed to create three separate funds: one would have no stock investments, one would contain up to 35% in



The fund's investments in the stock market became a focus of concern in the 1970s.

stock investments, and the third would be completely invested in common stock. Public employees could pick the fund in which they wanted their money invested. The bill did not pass.

The 1975 legislature corrected the 1973 and 1974 stock losses by passing a bill that guaranteed employees at least a 5.5% annual return on their PERS accounts retroactive to 1974. The legislation did not apply to variable-interest accounts. The issue quieted to barely a whisper when the stock market took a major upturn in July 1975, and the PERS fund showed a paper profit of more than \$18 million.

In late 1976, high inflation raised concerns over the adequacy of funding, and the legislature set up a committee to investigate. Since the legislators themselves officially came under the system the following year, keen legislative interest in PERS was expected.

The Oregon Employees Retirement Investment Association

In the second half of the 1970s, PERS received an infusion of energy from Wilma Hogle, a secretary with the Oregon Water Resources Department. Hogle and two other state employees incorporated as the Oregon Employees Retirement Investment Association to examine how the OIC was investing PERS money. Hogle served as president.

According to the January 4, 1978, edition of *The Oregon Journal*, “Her major aim was to get an independent evaluation of the PERS account. ‘We wanted reassurance that after 30 years with one actuary (Coates, Herford & England, San Francisco, California), the system was properly funded,’ she said.”

Hogle embarked on a mission to ensure the system was indeed properly funded. She persistently attended PERS meetings, lobbied state officials, and issued a newsletter that, according to a January 4, 1978, article in *The Oregon Journal*, “skirted the borderline of being honest and libelous.” The PERS Board ordered an independent study by Milliman & Robertson Inc. The study pointed out potential underfunding of the system. Consequently, higher employer rates began as of July 1, 1978, and increased every year until 1981.

This pleased Hogle, who wrote in a November 1978 editorial, “The Retirement Board has been adamant that the system will be fully funded, and if future actuary studies determine that adjustments in the contributions (*sic*) rates must be initiated to achieve full funding, the board will adopt them. Thus, Oregon becomes one of the few public employee systems in the country to adhere to this high level of pension integrity for its public employees.”

The Public Employee Collective Bargaining Act (PECBA)

In 1973, the legislature passed ORS 342.650-782, called PECBA, which allowed public employees the right to form a union. After PECBA’s passage, the Oregon State Employees Association (OSEA) became the Oregon Public Employees Union (OPEU). In 1980, OPEU affiliated with the Service Employees International Union (SEIU) to become the Portland-area branch: SEIU 503. Since then, SEIU 503 has committed to protecting PERS benefits.

Taxes

In the late 1970s, unforeseen trouble arose when the IRS became involved in taxing contributions. The problems began in 1970 when the employer pick-up began and Social Security taxes were not withheld from the retirement contributions the state paid on behalf of the employee.

In August 1979, the regional office of the Social Security Administration issued an informal ruling that PERS contributions paid by the employer are taxable income for Social Security purposes.

This meant a cost to both the employee and the employer. Both had an interest in fighting the ruling, and both did. As a result, Oregon retirement benefits were not taxed at that time.

Two other changes in the '70s were the use of unisex annuity tables and expanded health insurance for retired members.

Although PERS had its share of turmoil in the '70s, it was a good decade. The fund, challenged by a declining stock market mid-decade, had emerged solid. Many changes were made that strengthened both the system and the financial security of its members.

The 1980s: years of scrutiny

As the PERS fund grew and large numbers of PERS members approached retirement age, PERS came under close scrutiny by both the public and private sectors. The generous spirit of the '60s and '70s was eroded by concern that taxes were too high. PERS became the target of various private groups on a mission to “cut the fat” from government spending.

Simultaneously, a considerable number of PERS members were discovering that they had not clearly understood the long-term results of decisions they had made years before and were seeking legislation that would allow them to change some of their decisions. Changes sought include prior service-credit regulations, “buy back” of funds withdrawn, and qualification of certain employees as police and firefighters.

Jerry Liebertz, of the Oregon State Employees Association, said of this period of PERS history, “People did things to harm themselves financially, and it was coming back to haunt them. There was a big push to undo some of the damage they had done.”

During this decade, judges became members, and there were substantial additions and changes to health insurance. The PERS Board increased to nine members.

Investments spark controversy

The 1981 legislature passed a number of bills that improved the benefits for PERS members, including a switch to a full-formula method of computing benefits, a lowering of the full-benefit retirement age, and a two-year increase in benefits for retirees. But it was PERS investments, not benefits, which caused the most interest.

Several PERS investments became highly controversial, and everyone of voting age seemed to have an opinion about how to invest PERS funds. What many people failed to take into account was that the fund belonged not to the state, not to the taxpayers, but to PERS members. OIC's requirement was to invest the funds in accordance with the prudent-person rule.

However, in a time of recession, the fund was seen as a way to save Oregon from financial problems. Some groups wanted the funds to be invested in Oregon businesses or Oregon real estate developments. When the OIC decided to participate in a New York investment firm's purchase of Fred Meyer Inc., however, it stimulated enough conflict to result in litigation. Never had the OIC invested so much money at once, and never before were so many people concerned with one of its investments.

A Portland union, a group of retail chains, small businesses, and individual retirees joined together and filed a suit claiming the investment caused a conflict of interest because the state, through the investment, owned a controlling interest. The suit was settled out of court, with the state agreeing that no employee, member, or representative of the state, the OIC, or PERS “will attempt to take part in the control of the business or the competitive affairs of Fred Meyer.”

Meanwhile, concern over PERS investments in South Africa began to grow. Proponents defended such investments, saying they were sound under the prudent-person rule. Others felt PERS should not invest in countries practicing apartheid. After years of heated debates, the Oregon Anti-Apartheid Act of 1987 was passed, and PERS began divestiture.



In the 1980s, the generous spirit of the '60s and '70s was eroded by concern that taxes were too high.

The new Retirement Information Management System

By the early 1980s, a rapidly increasing number of retirees, coupled with changes in the benefit plan, had increased the agency's workload by 400%. The agency's computer system was the primitive punch-card variety; benefit estimates had to be calculated by hand; correspondence was months behind; initial retirement checks were sometimes several months late; and complaints were pouring into the governor's office. Budget constraints, however, did not permit an equivalent increase in staff.

Both members and staff were dissatisfied. It was apparent that the existing computer system could not be modified to meet the agency's needs. An entirely new set of tools was needed.

As a result, during a six-year period, the agency developed and installed the Retirement Information Management System (RIMS). The agency acted as its own contractor and installed the system using in-house and contracted staff and a third-party system monitor. Amazingly, RIMS not only came in on time and at its projected cost of \$8.2 million, but it actually performed better than expected. It was paid for from the return on investments, so no tax money was required.

PERS continued to thrive despite the scrutiny and the need for the adjustments brought on by legislation and technology. PERS stepped up its efforts to serve and inform its members. By the end of the decade, RIMS was fully operational, full-scale member counseling was underway, and circuit riders traveled throughout the state to keep members informed about the system. An informative video was produced, and desktop publishing made it easier to produce publications to help keep members aware of PERS benefits.



By the 1980s, it became apparent that PERS needed a new computer system to meet the agency's needs.

The 1990s: into the next century

Except for its earliest years, PERS was subject to more intense scrutiny during the 1990s than in any other decade in its history. Legislation, ballot measures, task force studies, and lawsuits kept PERS very much in the public eye, leading to this era being known as the decade of bills and ballot boxes.

The '90s were also years of rapid technological changes, which brought a new set of challenges to how PERS conducted daily business.

Public scrutiny

PERS benefits and their related costs have always been an issue of concern to social or tax activists as well as PERS members. That interest reached new heights in 1994 with analysis of PERS by three task forces.

The Governor's Task Force on Employee Benefits convened on April 1, 1994. The task force reviewed more than just PERS, looking at all state employee benefits such as retirement, insurance, and paid time off. The purpose was to see if the total compensation of state employees was in line with the market. The task force concluded that total compensation was nearly equal, with benefits somewhat higher and salaries somewhat lower than those of an equivalent private-sector worker.

The Governor's Task Force on Retirement Funding was more narrowly focused. It reviewed the system's level of funding to ensure it was no lower or higher than necessary to pay for retirement benefits. The task force concluded that funding was right on target.

The House Interim Task Force on PERS took a broad look at the system, with an emphasis on the cost of the system to taxpayers. Probably the most significant result of the task force's work was the creation of a second tier of PERS membership by the 1995 Oregon Legislature.

Partly because of the tremendous demand for data by the various task forces, PERS commissioned a comparative study of benefits and funding by The Wyatt Co., an actuarial and consulting firm. The study compared Oregon PERS with the systems of five other western states and 40 private firms. The study found that PERS compared favorably with most other systems, but was not the highest ranked of the systems studied.

In addition to the effort required by PERS staff to meet the data demands of these task forces, three other issues demanded substantial amounts of staff time and resources: state taxation of PERS benefits, a concerted effort to reduce PERS benefits, and compliance with Internal Revenue Code regulations on retirement benefits.

Federal regulations

The issue of compliance with federal regulations stemmed from a restriction on benefits contained in Internal Revenue Code (IRC) 415, which limits an individual's pension benefit amount and is adjusted on a yearly basis. Some PERS retirees exceeded the limit set in IRC 415 largely because of differences in the way final average salary was calculated between Oregon statute and the IRS.

This issue was largely resolved when President Bill Clinton signed the Small Business Job Protection Act of 1996, popularly referred to as the "minimum-wage bill." This bill repealed a section of IRC 415 for governmental plans, stating that a pension may not exceed 100% of a participant's average taxable compensation for the highest three consecutive years. PERS' Executive Director Fred McDonnal and others had lobbied members of Congress to make a change because IRC 415 was originally intended for private pension plans, not plans covering governmental employees.



PERS was subject to intense scrutiny throughout the 1990s.

Ballot measures

The fact that any PERS retirees exceeded IRC 415 limits, however, regardless of the reason, added credibility to a popular resentment of PERS benefits. During the middle of the decade, a growing anti-tax sentiment found expression not only in a ballot measure designed to roll back property taxes, but also in ballot measures designed to reduce PERS benefits.

The first of these measures was Ballot Measure 8, which voters narrowly approved in November 1994. This measure eliminated the 6% pick-up by employers of the employee contribution to PERS; eliminated the use of accumulated, unused sick leave to increase retirement benefits; and eliminated the guaranteed rate of return on PERS investments. The measure also prohibited any public body from contracting for a salary increase to compensate for the 6% employee contribution.

Although the measure was immediately challenged in court, the number of applications for retirement increased substantially. Many people who were close to retirement feared losing the value of their accumulated sick leave, so retired earlier than they had planned. On June 21, 1996, the Oregon Supreme Court filed a ruling that overturned all three parts of the measure. In doing so, the court upheld the rulings of several lower courts, all of which had concluded that some or all of Measure 8 violated the contracts clause of the U.S. Constitution.

Another initiative petition targeting PERS benefits qualified for the ballot in November 1996. Ballot Measure 45 would have done the following: (1) raised the age for full retirement benefits to Social Security age for all public employees except police officers and firefighters, (2) eliminated any guaranteed level of benefits that exceeded 75% of final salary, (3) eliminated any guaranteed level of interest on retirement accounts, and (4) prevented employers from providing medical or hospital benefits for retirees except for disability. This measure was defeated.

State taxation of PERS benefits

In 1989, the U.S. Supreme Court ruled in a Michigan case that federal, state, and local retirement benefits had to receive equal treatment. This ruling conflicted with Oregon statute, which exempted PERS benefits from state income tax.

After several unsuccessful attempts to resolve this issue, the 1991 Oregon Legislature passed a law that subjected PERS benefits to state income tax, but also provided a small increase in benefits based on years of service. This law was challenged in court, and in 1992 the Oregon Supreme Court ruled that taxing the benefits prior to September 1991 was a breach of contract, but that the state could do that if it also provided a "remedy." In the meantime, state income taxes were being collected on PERS benefits.

The 1995 Oregon Legislature passed House Bill (HB) 3349 in response to the court's decision. This bill also was challenged, but the Oregon Supreme Court ruled in August 1996 that HB 3349 was an acceptable remedy for its earlier decision. HB 3349 provided a maximum benefit increase of 9.89% as compensation for taxes paid. In February 1997, PERS increased monthly benefits to eligible retirees, and in September 1997, PERS mailed about \$380 million in retroactive payments to cover the period between October 1991 and February 1997.

Although these legislative and judicial actions appeared to have resolved the taxation issue, pending lawsuits by federal retirees created additional complications.



The agency undertook a reengineering project in 1997.

Technology

Technology exploded during the latter part of the '90s. Cell phones, computer technology, DVDs, and the World Wide Web made communication easier than ever, and with that ease came a demand for the businesses and organizations to provide information faster and with more accuracy.

Although PERS had been using RIMS, its computer system, for less than 20 years, it could no longer keep up with increased customer demands. Between hundreds of hours of programming necessary to deal with the tax remedy, an increased number of retirements caused by a 21%

distribution to member accounts in 1997, and the coming of age of baby boomers, PERS staff were facing backlogs in some areas, and the agency grew increasingly concerned about meeting members' needs. It was not practical to double or triple the workforce to meet demands, so the agency turned to technology to mitigate the situation. As fiscal year 1997 drew to a close, a reengineering project was underway.

In the midst of all the studies, reengineering, and scrutiny, PERS also faced what was commonly known as the Y2K situation, which was a computer challenge few had anticipated.

When computer programs were initially designed, the practice of representing years with two digits was standard practice. However, when the year changed to "00," computers would not know how to interpret this. Did it mean 1900 or 2000? Fearing that long-working systems could break down, some doomsayers predicted dire consequences: worldwide power failures, a total breakdown of the transportation infrastructure, banking catastrophes. Others were sure the problems would be manageable. Regardless, companies and organizations around the world began to upgrade their computer systems. PERS, too, took a pro-active stance and hired contractors to upgrade its system to prevent possible interruption to service and distribution of benefits.

At PERS, as in most of the rest of the world, January 1, 2000, came and went without a computer catastrophe.



Starting in 1997, strong stock market gains resulted in an unprecedented number of retirements.

Retirement spike

PERS saw an unprecedented number of retirements beginning in 1997, primarily due to gains in the stock market, which were reflected in earnings credited to member accounts. In 1998, about 8,200 PERS members retired, which was more than twice the previous year.

The two main reasons for the retirement spike were account earnings and an increase in the number of people of retirement age.

Employees were allowed to direct as much as 75% of their retirement fund into U.S. stocks as part of the variable annuity program. At retirement, the employer matched that total. This created an ideal financial situation for many retirees. Employers were not so happy with the situation because they were only allowed to invest in more conservative accounts, which generally

earned less than the variable accounts. To make up for the difference, their rates were likely to increase. Employers also lost valuable staff members. Oregon school districts were hit particularly hard, and the media was full of reports of teacher shortfalls. The situation reflected poorly on PERS.

Other events

A number of additional events of interest occurred in the '90s:

- The 1997 Oregon Legislature passed a bill that allowed PERS to spell "employees" with two E's at the end of the word rather than the single "e" it had used since its inception. (Note: Only one e was used initially because at the time PERS was created, the state mandated that if there were alternate spellings for words, the shorter spelling must be used to save printing costs.)
- The 1997 Oregon Legislature created two new trusts for PERS to administer. The Deferred Compensation Trust was created to provide trust protection for the state's Internal Revenue Code (IRC) Section 457 program. The Benefit Equalization Fund was created to serve as a vehicle for employers to meet contractual obligations to members for pension benefits that exceeded IRC Section 415 limits and were not eligible for payment under the PERS plan.
- PERS moved into its own building in June 1997, which was anticipated to save the system about \$6 million in the following 20 years. The building was built in Tigard, right off the interstate highway, to ensure easy access for members.

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- Executive Director Fred McDonal, who had served the agency in various roles for 15 years, retired December 1999. He had been the executive director since 1993.
- To help ease high employer rates among local government agencies, the board began considering a rule that would pool local government rates the way rates were already pooled for school districts and state agencies.

As the 90s came to a close, PERS was still very much in the public light. The system would soon have a new executive director, employers were concerned about escalating employer rates, the public felt PERS was eating up too many tax dollars, the wave of baby boomers had begun to wash up on the PERS shore, and the system desperately needed to improve its technology. However, the system was still strong, well-funded, and well-respected in public pension plan circles.

A look into PERS' future

As PERS began its second 50 years, it also began preparations to manage a rapidly increasing workload. The baby boomers — people born between 1946 and 1964 — in PERS' member population were steadily nearing retirement. In 1997, nearly 54,000 active PERS members were within 10 years of eligible retirement age. As a result, PERS' workload was expected to double by 2005 and nearly triple by 2010.

This demographic wave would affect every aspect of the agency's work. To address it, the agency embarked on a plan to address as much of the workload increase as possible through improvements in technology and in work methods. Studies conducted in 1996 and 1997 assessed specific technology needs and work process improvements. Based on the study results, PERS began plans to make major changes in these areas within the next few years, expecting the changes to likely include improved ways of doing business over the phone and across the internet and faster access to information for agency employees, members, and PERS-participating employers.

During PERS' first half-century, the agency enjoyed a reputation for outstanding customer service. The agency's management was committed to taking the steps necessary to maintain this status throughout the retirement of the baby boomers and beyond. By doing so, PERS would continue to fulfill its mission "to provide the highest quality services so that each member has the opportunity for a successful retirement."



PERS moved into its own building in Tigard in June 1997.

Editor's note: This concludes the section of PERS History that was written when the agency turned 50. This document has been lightly edited and further expanded to include new information for the agency's 75th anniversary.

The 2000s (2000–2010): years of change

As the 20th century came to a close, a whirlwind of activity swept across the country. With technology changing at break-neck speed, both new and experienced investors rushed in to take advantage of the accompanying robust stock market. The first DVDs were launched; eBay made online shopping mainstream; and dot-com businesses sprouted throughout cyberspace as e-commerce took off.

By the early 2000s, the dot-com bubble burst, stocks took a beating, and newfound wealth became as quickly lost as it had been found. This downward trend continued, and by PERS' 60th birthday in 2006, the United States had suffered the 9/11 terrorist attacks and was at war with Iraq. The stock market had suffered devastating losses, and both the financial and auto industries were in serious jeopardy in 2008. In short, the country's financial and domestic security were both sitting on shifting sands vulnerable to swift, unpredictable winds.

Ups and downs

Like the country itself, PERS experienced both the best of times and the worst of times during these years. Stock market booms and downturns, concerns over technological inadequacies, lawsuits, and public perceptions that PERS was unsustainable necessitated both radical changes and time-intensive, costly projects.

During this period, the agency had four executive directors, numerous changes in executive positions, and an entirely new board. It experienced a record number of retirees because of strong investment returns and the baby boomer population reaching retirement age. RIMS, the computer system that had once been viewed as the agency's salvation, was antiquated and a new system had to be designed. The agency adopted a new mission statement, underwent restructuring, and expanded its workforce by nearly 30%.

The single most significant event in this decade was PERS Reform legislation in 2003.

Major events

Year 2000 (Y2K)

The year 2000 brought computer challenges few had anticipated. At PERS, as in most of the rest of the world, January 1, 2000, came and went without a computer catastrophe. (See *"Technology" in the previous chapter for more information.*)

Record gains and losses keep PERS spinning

As PERS began its sixth decade, the stock market was strong. With the internet providing investors easy access to buying and selling stocks, people were almost frenetically looking for the next company that would double or triple within a few months. Even people who had never previously invested in stocks were entering the arena and closely watching the Dow Jones Industrial Average. From 1996 to 1999, the Dow nearly doubled in value.

Many PERS members opted to put some of their money — 25%, 50%, or 75% of their contributions — in the variable annuity program and were rewarded with uncommonly high return rates. PERS investments also grew with unprecedented speed, and the PERS Board allocated earnings to member accounts accordingly.

However, as the new millennium came, the stock market proved volatile, and the media began reporting how overvalued many stocks had become. Between the unpredictability of the market and fears about how low the market might go, many people who had just gotten into the market began selling off their shares. By 2002, the Dow lost most of its late-1990s gain, and the markets continued to be volatile.

The public began to be concerned about PERS' unfunded liability, and PERS became a major political issue. (See *"The call for PERS reform" in this section.*)

The notable gains in members' variable accounts proved detrimental to employers. PERS was required by statute to give members the highest benefit calculation, and Money Match frequently gave the

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highest numbers for many Tier One members. However, while members may have earned high returns on their variable accounts, employer funds were invested much more cautiously and had simply not kept up with employee earnings. Thus, the pension system faced a higher unfunded actuarial liability (UAL), employers faced higher rates, and the public became increasingly resentful over the high benefits some retirees were receiving.

While the market picked up somewhat in 2003, it remained almost flat through 2004 and 2005. PERS investment returns rebounded in 2006 and continued to be strong through 2007.

By the end of 2007, PERS was 112% funded. This was indeed cause for celebration, especially when *PLANSPONSOR* magazine, a trade journal focused on retirement issues, named PERS the winner of its Plan Sponsor of the Year award. In 2007, the magazine termed Oregon PERS “the best funded pension system in the country.”

As reported in *The Statesman Journal* on February 8, 2007, “The state pension system was honored for its strong investment returns and reforms that closed most of PERS’ \$17 billion funding gap since the spring of 2003. PERS ‘made tough decisions and confronted the issues head on,’ said Nevin Adams, the magazine’s editor-in-chief.”

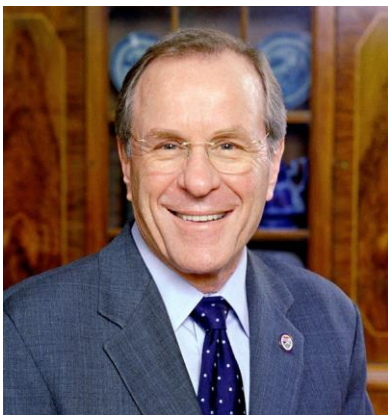
Employer rates

A large increase in employer rates was triggered primarily by House Bill 3349 (passed in 1999) and the impact of high earnings distribution. As reported in PERS’ 1999 Comprehensive Annual Financial Report, “In response, the board reviewed numerous concepts and created new administrative rules that will help stabilize employer rates while preserving the board’s fiduciary commitment to the beneficiaries of the trust.”

As a result, fiscal year 2000–2001 included a session of the Oregon Legislature, which passed Senate Bill (SB) 134 (2001). The bill had a provision that allowed local governments to join the existing state/community college actuarial pool. Those who joined the pool could expect significantly less rate volatility.

This did offer some relief, but the issue was far from resolved and continued to be of concern to employers. Healthy investment returns somewhat eased concerns over these rates in the mid-2000s, but because the value of PERS’ assets was linked with employer rates, any change in PERS’ financial status always brought the issue of employer rates back into the public eye.

SB 134 also allowed members to elect a double lump-sum payout at retirement, effective Jan. 1, 2003.



OFFICE OF GOVERNOR KULONGOSKI,
PUBLIC DOMAIN, VIA WIKIMEDIA COMMONS

Gov. Ted Kulongoski made PERS reform part of his platform when he ran for office in 2002.

The call for PERS reform

According to an Associated Press article published July 26, 2002, Shortfalls in private companies’ pension plans soared to \$111 billion last year, the highest level ever reported by the Pension Benefit Guaranty Corp. Although PBGC spokesperson Jeffrey Speicher downplayed this in the article by pointing out that most plans were still at least 80% funded, the news put pensions on people’s minds.

In Oregon, PERS became a hot topic both because of its unfunded liability — estimated to be \$8.5 billion in late July 2002 — and because of high employer rates. Both Democrat Ted Kulongoski and Republican Kevin Mannix, the state’s two gubernatorial candidates, made PERS reform part of their platforms.

The media reported on PERS with increasing regularity, and when Ted Kulongoski was elected governor, one of his first steps was to reform PERS. In his inaugural speech in January 2003, Kulongoski said, “The debate we’re having over PERS is creating real uncertainty for our public employees. I know that. I also know that PERS — as it is currently structured — is creating financial uncertainty, bordering on crisis, for Oregon. We need to go back to the drawing board and come up with a retirement system that is fair, sustainable, and affordable. This is a test of leadership for both the legislature and me. It is also a test of leadership for those who speak on behalf of public employees. We are duty-bound to get this job done.”

An opinion piece by SEIU 503 Executive Director Leslie Frane that ran in the March 7, 2003, edition of the *Portland Tribune* stated the general public's opinion about PERS succinctly: "PERS has been blamed for everything from shortened school years to rising crime. Public sector retirees have been cast as wealthy freeloaders instead of hardworking people who protect and teach our children, keep our communities safe, and provide health care to elderly and disabled Oregonians." Tensions between public employees in the PERS system and the private sector became increasingly hostile, fueled by reports that the plan had hit record shortfalls.

Two task forces studied PERS' structure and liabilities and offered suggestions to reform the system. In 2003, Gov. Kulongoski signed several bills that reformed PERS.

The PERS Reform and Stabilization Act of 2003

The PERS Reform and Stabilization Act included four bills.

House Bill 2001

Tier One regular accounts would be credited with 8% earnings (no more, no less) until the Tier One assumed rate deficit was eliminated and the Tier One reserve account was fully funded in each of the last three years.

House Bill 2003

HB 2003 was intended to reform PERS to reduce costs for public employers going forward while protecting the accrued benefits of members. Reforms would also resolve system structural issues.

A number of changes occurred with the passage of this bill, including:

- Earnings could not be credited to Tier One regular accounts in any year in which there was a deficit, and no earnings could be credited that would result in a deficit.
- For Tier One members who retired under Money Match on or after April 1, 2000, and before April 1, 2004, PERS would adjust the annual cost-of-living allowance (COLA) as though the member had been credited with 11.33% earnings in calendar year 1999 (instead of 20%). Members would receive the fixed allowance (with no additional COLA) until the revised allowance (with COLA) provided a higher benefit.
- Member contributions would be redirected into the Individual Account Program (IAP).

House Bill 2004

PERS would start using new actuarial equivalency factor tables on July 1, 2003.

House Bill 2020

HB 2020, part of the 2003 PERS Reform legislation, directed PERS to create a new plan for PERS members who joined on or after January 1, 2004. The Oregon Public Service Retirement Plan (OPSRP) was designed as a hybrid pension plan with two components: the pension program (defined benefit) and the Individual Account Program (defined contribution).

Pension program

This portion of OPSRP would provide a life pension funded by employer contributions. Depending on whether a member was a general service or police and fire member, benefits would be calculated with specific formulas for members who retire at or after normal retirement age.

Individual Account Program (IAP)

Beginning January 1, 2004, members of all three plans would begin contributing 6% of salary into their IAP accounts. PERS members retained their existing Tier One and Tier Two accounts, but those accounts would not receive any additional contributions. Tier One accounts would continue to earn the assumed rate annually (8%), and Tier Two accounts would continue to be credited with earnings or losses.

Tier One, Tier Two, and OPSRP members all contributed 6% of salary to their IAP account. Employers could choose to pay the 6% contribution for their employees.

IAP accounts were credited with earnings or losses annually and debited for administrative costs.

Public employee challenges to reform legislation

Challenges to the reform legislation were immediate. They were consolidated into the *Strunk v. Public Employees Retirement Board* case, commonly referred to as the *Strunk* case, which reached the Oregon Supreme Court.

The Oregon Supreme Court held that PERS could not suspend COLAs to certain retired members and that the annual crediting at the assumed rate for Tier One member regular accounts could not be eliminated.

Employer litigation

Prior to 2003 PERS reform, PERS employers took legal action against PERS, requesting that the courts review employer contribution rates for both 1998 and 2000. Several different suits against PERS were consolidated into what became commonly referred to as *City of Eugene v. State of Oregon, Public Employees Retirement Board*. Judge Paul Lipscomb presided over the case, and his decision became known as the Lipscomb decision.

Lipscomb ruled that the PERS Board's settlement agreement in the *City of Eugene* case had resolved the issue.

PERS reallocated 1999 earnings to Tier One member regular accounts, employer accounts, and the benefits-in-force reserve at 11.33% instead of 20%, and new mortality tables were implemented.

Additionally, PERS would redirect member contributions to the IAP, and PERS would use new actuarial equivalency factor tables beginning July 1, 2003.

The *Strunk* decision voided HB 2003 (2003), which stated that earnings would not be credited to Tier One regular accounts in any year in which there was a deficit and no earning would be credited that would result in a deficit.

The results of both the *Strunk* and *Eugene* cases had an impact on benefits, and a special section at PERS was set up to recalculate benefits.

Retirement spikes

All the uncertainty that came with PERS reform and the subsequent legislation caused huge retirement spikes, the likes of which PERS had never experienced before. Retirements climbed past 10,000 by the middle of 2003, which was more than twice the previous record of retirements in a year. To help retirees, PERS began holding after-hour sessions in which PERS staff helped members fill out retirement forms. Sometimes lines backed up outside the building, with media on scene to report the mass exodus on the evening news.

The public began to worry about having enough teachers in the schools and adequate coverage of public agencies to meet consumer needs. PERS was seen as the culprit for staffing-related problems. This concern was fueled by frequent newspaper articles about teachers who weren't ready to retire and regretted leaving their positions, but who feared losing huge chunks of their retirement benefits if they didn't retire.

PERS staff expands to cover retirement spikes and PERS reform

Combined with lawsuits, the creation of a new computer system, and instituting a new plan, PERS saw nonstop activity. New employees had to be hired to meet the exploding workload demand, and PERS had to rent space in a separate building to accommodate the new staff.

Employees worked at a frenetic pace, but no matter how many overtime hours they devoted to supporting member needs and new initiatives, for the next several years staff could barely keep up with all the changes and challenges.

PERS Board reform and a new mission

After increasing in size since its inception (5 members in 1946, 9 members in 1991, 11 members in 1995, and then 12 members in 2001), the PERS Board was reduced to its original size of 5 members in 2003. The new board, appointed by Governor Ted Kulongoski in September 2003, created PERS a new mission statement to guide the future direction of the agency:

“We are a well-respected organization that serves our members by enabling informed retirement and health benefits decisions and delivering retirement and health benefits, effectively and efficiently.”

PERS director Jim Voytko, who led PERS through a tumultuous 2003, resigned in October of that year, citing differences with the agency’s new board. Laurie Warner, facilities division administrator for the Department of Administrative Services (DAS), served as interim director until DAS offered the position to Paul Cleary, director of Oregon’s Water Resources Department. According to PLANSPONSOR.com, “Cleary said one of his early goals will be improving an archaic computer system so that workers and retirees get accurate retirement estimates. He also must sort out wrinkles in a new retirement plan approved by the 2003 Legislature.” Cleary ended up serving for 10 years, which was the longest term since James L. McGoffin, who served from 1970 to 1984.

Technology

PERS’ goals to catch up with technology were challenging. The agency began a major reengineering effort in 1999 to create a new information system that would be completed by 2005. However, the 2001 legislature showed its reservations about the plan by allocating only \$1 to fund the new system. However, the PERS reform in 2003 required deployment of new technology and provided the impetus to kick off the RIMS Conversion Project, which would find a replacement for RIMS.

PERS searched for an outside consultant to prepare a plan to create the new computer system. This passed the legislature in the following session, and work began on the Oregon Retirement Information Online Network (ORION), a new system that was completed in 2010.

ORION was a robust system that included the following tools and capabilities:

- jClarety — data collecting, calculations, and payment processing for retirement administration.
- FileNet — document management and workflow.
- End-user developed applications to serve specialized business needs.
- Online Member Services (OMS) — member portal for data review and limited transactions.
- Employer Data Exchange (EDX) — employer portal for reporting, invoicing, and payment.

Education sessions

By the end of its sixth decade, PERS had instituted new technology for employers to report their employees’ earnings and demographic records. This was a major undertaking, and PERS began a significant support effort with employers that included employer education workshops and seminars, a new website specifically for employers, better email engagement, and other outreach efforts.

In 2002, legislation directed PERS to cease individual retirement counseling sessions for members. To ensure that members had the information they needed to make sound retirement decisions, PERS:

- Made five videos to explain retirement considerations.
- Created a call center, complete with a new phone system, to respond to member inquiries.



PERS began holding Retirement Application Assistance Sessions (RAAS) in 2007. Five years later, counselors celebrated having conducted more than 14,200 such sessions.

PERS History

- Used video conferencing.
- Revamped its website to keep members informed of any changes to the system.

During retirement spikes, the agency held Turn-in-Forms Sessions during evening hours in which staff helped ensure that members had filled out their retirement forms correctly.

By 2007, retirement counselors also began holding Retirement Application Assistance Sessions. These allowed members within one year of retirement to meet one on one with a retirement counselor to ensure they had filled out their retirement applications correctly.

Oregon Savings Growth Plan (OSGP)

OSGP, an optional deferred-compensation plan for all state and some local governments, benefited from stock market increases during this decade. On June 30, 1997, the fair value of investments was \$388.7 million, and as of June 30, 2007, the fair value of investments had grown to \$910.9 million.

Great Recession of 2008

Throughout the early 2000s, the mortgage market saw unprecedented growth. Mortgage companies approved borrowers for adjustable-rate mortgages, which started with small payments that would increase over time. People who could not afford a house were suddenly being approved for loans. As the payments increased, however, homeowners could no longer afford them. By 2008, borrowers were defaulting on their mortgages in high numbers, causing turmoil in the financial markets, the collapse of the stock market, and the global Great Recession.

According to the 2008 PERS Comprehensive Annual Financial Report, “Declining financial markets produced negative returns on PERS investments for the first time in six years. The net assets of the defined benefit pension plan decreased approximately \$4,881.7 million, or 7.8%, during the year ended June 30, 2008.”

The 2009 financial report had even worse news. “During the fiscal year, financial markets as a whole declined significantly in what has been described as the second worst recession in history. PERS’ investment portfolio incurred significant losses Fiduciary net assets decreased by \$15,389.5 million, or 25.1%, during the fiscal year due to declines in financial markets. ... Revenues (additions to fiduciary net assets) for fiscal year 2009 fell 719.7% to (\$12,285.0) million, which includes member and employer contributions of \$1,367.0 million and net losses from investment activities totaling (\$13,706.6) million.”

Fortunately, years of poor investment returns started to turn around in 2013. As of the December 31, 2013, actuarial valuation, PERS’ funded ratio (including side accounts) was 95.9%. However, it would take PERS members and employers years to recover from the losses incurred during the Great Recession.

The 2010s (2010–2020): years of rebuilding

The 2010s were a decade of turmoil around the world. In 2010, an earthquake devastated Haiti, the iPad was revealed, and Facebook founder Mark Zuckerberg was *Time* magazine person of the year. Over the decade, the Space Shuttle program came to an end, Hurricane Sandy flooded the east coast, President Barack Obama offered healthcare to Americans through the Affordable Care Act, and public mass shootings became a regular, tragic occurrence. Beginning in 2016, America's undercurrent of racism violently surfaced, sparking protests and riots. The decade ended with the world shut down in a global pandemic.

As the economy started to recover from the 2008 recession, PERS focused on increasing efficiency through updated processes and procedures while doing its best with aging technology. Externally, litigation and new legislative bills led to major changes in benefits and systems.



Kevin Olineck joined PERS as its director in 2018.

Leadership changes

PERS had three directors between 2010 and 2019: Paul Cleary retired in 2014 and was replaced by PERS Deputy Director Steven Rodeman. Rodeman retired in 2018, and at the same time, the PERS Board chairperson John Thomas termed out. According to *The Oregonian*, “Greg Hartman, the Portland lawyer who has represented the PERS Coalition of public employees for decades, said the loss of the director and board chair is a ‘sea change’ for the system.” The state sought a PERS director who was not only a strong leader, but also knowledgeable in actuarial science and retirement programs. The state chose Kevin Olineck from the British Columbia Pension Corporation, a large pension program with five plans and 500,000 members. He moved from Canada to take the helm in July 2018.

Outgoing board chair Thomas told *The Oregonian*, “You essentially have five plans right now. There’s Tier 1, Tier 2, Tier 3 (OPSRP), the individual account, target date funds, the money match, the full formula retirement, with employee choice coming in the future. It’s the full meal deal, and it’s a ... lot of stuff that needs to be accounted for. ... One of the reasons I’m feeling okay about this transition is that Kevin (Olineck) gets it. He knows how complicated this is.”

Thomas was replaced on the PERS Board by former Moovel chief financial officer Sadhana Shenoy. According to the September 7, 2018, *The Oregonian*, “Chris Pair, a spokesman for (Governor) Brown, said ‘Shenoy was chosen to lead the board and assist the agency of tomorrow, not of the past ... For the PERS system to modernize and meet the challenges ahead, the board must adopt a creative approach.’”

Focusing on improvements

PERS Outcome-Based Management System

In 2012, PERS began working on a system for measuring and improving the work that the agency performs. The new system was called PERS Outcome-Based Management System (POBMS). POBMS used a “fundamentals map” to establish six key goals, six operating processes, and six supporting processes. Each process had specific measures of success that were reported to the management team each quarter and to the PERS Board twice a year.

POBMS key goals:

- Collaborative and transparent leadership.
- Engaged and empowered workforce.
- Efficient, effective, adaptable organization.
- Engaged and educated stakeholders.
- Timely and accurate service.
- Trusted and credible agency.

New strategic plan

For the first time, PERS leadership initiated a comprehensive strategic planning effort in 2014 that culminated in the 2015–2020 Strategic Plan. The planning was prompted to respond to agency changes, enhance efficiency, and improve performance outcomes by better aligning the agency’s structure and priorities. The strategic plan was subsequently updated to cover the time period 2018–2023. The new plan updated the mission, vision, core values, and core operating principles to give PERS a simplified and focused purpose.

Mission statement

We serve the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time.

Shared vision

Honoring your public service through secure retirement benefits.

Core values

- **Service-Focus:** We work together to meet the needs of others with dependability, professionalism, and respect.
- **Accountability:** We take ownership for our decisions, actions, and outcomes.
- **Integrity:** We inspire trust through transparency and ethical, sound judgment.

Core operating principles

- **Professional:** We are responsive, respectful, and sensitive to the needs of our members, employers, and staff.
- **Accurate:** We ensure data integrity and provide consistent, dependable information and benefits.
- **Judicious:** We use sound judgment and prudent, principled decision-making in upholding our fiduciary responsibility.
- **Information Security:** We are constantly vigilant to safeguard confidential information.

Centers of Excellence

In 2019, PERS’ new director Kevin Olineck led a charge to streamline operations by re-aligning the agency into Centers of Excellence. “It is imperative we take an enterprise view of the work we do, so that staff members’ expertise and skillsets can be adopted consistently across the whole organization, and not remain in pockets or silos,” Olineck said. “This is where the idea of Centers of Excellence comes into play. It also enables PERS to make the most of available skills and resources to help the agency improve. Rather than a division or department focused on an operational task, Centers of Excellence establish and share best practices and utilize resources in the most effective manner.”

The initiative involved the movement of about 10% of the staff and their work processes. The role of deputy director/chief operating officer was split into two distinct positions and the role of chief administrative officer was eliminated.

Employer Advisory Group

The PERS Employer Advisory Group (EAG) was proposed in 2014 as a sounding board to improve the agency’s administration of the PERS Plan on behalf of employers. The group would provide an employer perspective on agency policies that affect a broad spectrum, if not all, of PERS-participating employers. Members were asked to provide feedback to PERS executive leaders on policies and, importantly, take what they learned at the meetings and share that knowledge and understanding with the employers they represent.

At the first meeting on January 23, 2015, PERS Deputy Director Yvette Elledge-Rhodes said, “It is our goal to improve communication with employers to get feedback on policy issues or problem-solving initiatives. We believe with better feedback and collaboration, we will be more successful implementing changes having support or at least understanding from the group. There are several examples in which the communication or implementation of policy or process changes could have been more collaborative.”

The EAG agreed to meet quarterly. Members were appointed by seven groups or associations, including Association of Oregon Counties, Oregon School Boards Association, and State Universities

Future topics that the EAG hoped to address included training on reading valuations, annual refreshers on GASB 68 to explain expected big swings, and employer communication as it relates to policy issues.

Plan changes

Service time

At the end of 2009 and into PERS' seventh decade, members saw changes to data-verification processes and service time purchases. Senate Bill (SB) 399 allowed PERS members who were able to fill in gaps in their service by paying into the system to do so with pre-tax dollars from deferred compensation or a tax-sheltered annuity (instead of after-tax). The PERS Board discussed the bill at a special conference call meeting on March 5, 2009. It went into effect on January 1, 2010, and made it easier and more economically attractive for members to purchase service time.

Tax remedy

Until the late 1980s, PERS benefit payments had been exempt from Oregon state income taxes, and federal retirement benefits were partially exempt. A 1989 federal Supreme Court ruling directed that states must tax federal and state retirement benefits in the same manner.

Therefore, in 1991, the Oregon Legislature passed a law to subject PERS benefits to state income tax. The tax on PERS benefits was challenged to the Oregon Supreme Court, which decided that it was a violation of the benefit contract with members. As a compromise, the legislature approved Senate Bill 656 (1991) and House Bill 3349 (1995) to establish "tax remedy" payments that would mitigate the effect of subjecting PERS benefits to state income tax. Eligible Tier One members received the higher of the two payments established in SB 656 and House Bill (HB) 3349. The formula under SB 656 was based on a member's total service time, and the formula under HB 3349 was based on service time before the tax was imposed.

Twenty years later, it came to light that some members who were receiving the tax remedy to cover state income tax weren't actually being charged income tax. In 2011, the legislature passed HB 2456, which prohibited PERS from paying an increased benefit under the tax remedy provisions of HB 3349 if a person was not a resident of Oregon or not subject to Oregon personal income tax. This only applied to eligible members who retired on or after January 1, 2012.

Two years later, Senate Bill 822 (2013) eliminated the tax remedy for PERS members who do not pay Oregon state income tax on their PERS benefits because they are not Oregon residents.

In 2011, changes to the tax remedy statutes prohibited PERS from paying a tax remedy increase if a member is not a resident of Oregon or not subject to Oregon personal income tax for those eligible members who retire on or after January 1, 2012.

This led to PERS instituting a system to verify residency of members. PERS received a yearly report from the Department of Revenue and then requested member attestation forms for those members who did not file Oregon tax returns (or filed them late). This system remains in place at present, allowing members to get the tax remedy increase they are entitled to while making sure members who are not Oregon residents do not get the increase.

Moro v. State of Oregon

In 2015, the Oregon Supreme Court issued a ruling in *Moro v. State of Oregon*. This case challenged SB 822 (2013) and SB 861 (2013), which were legislative actions aimed at reducing the cost of retirement benefits. The court ruled that retroactive reductions to members' PERS benefits were a violation of the contracts clause, and that those benefits had been "bargained for" by members upon their performance of the work that led to those benefits. This invalidation of the 2013 state senate actions led PERS to have to recalculate 120,000 benefit accounts.

Cost of living adjustment

Annual cost of living adjustments (COLA) were first instituted for pension payments in 1972. Since then, PERS has experienced many changes to both the amount and the applicability of the COLA.

In 2013, the Oregon Legislature reduced the amount of the COLA to 1.5% for 2013 and, for 2014 and beyond, to 1.25% on the first \$60,000 of an annual benefit and 0.15% on amounts above \$60,000. The Legislature attempted supplementary payments for members to make up the COLA difference, but this was struck down by the Oregon Supreme Court in 2015.

In 2015, the COLA promptly changed again to restore a 2% COLA for service time accrued before October 1, 2013. The COLA for service time after that date used a lower rate. Service time accrued in both periods was “blended.”

The COLA varies each year based on the West Region Consumer Price Index, but is limited to a maximum of 2% each year.

Target-date funds

In 2017, the Oregon Investment Council changed its strategy for investing IAP accounts to target-date funds based on a member’s birth year. This was intended to reduce investment risk and volatility as members age and get closer to their retirement date, while being slightly more aggressive during years a member is further away from retirement age. In 2019, Senate Bill 1049 allowed members to change their applicable target-date fund, no longer tying it to the member’s birth year, if they chose.

Benchmarking

In CEM Benchmarking’s “2017 Benchmarking Analysis for Oregon PERS,” PERS received, “one of the highest plan design complexity scores among CEM’s global universe.” According to the report, PERS’ high complexity was mostly due to the number of rules imposed on the system, such as multiple plan types, variable compensation, divorce rules, purchase rules, disability rules, and defined contribution plan rules.

PERS UAL Task Force

As a result of the 2008 recession’s effect on investment earnings (which provide most of the funding for PERS benefits), PERS’ unfunded liability had grown to \$22 billion as of the December 31, 2015, system-wide valuation, and was expected to rise another \$2.4 billion over the next few years. The more the UAL grew, the higher employer rates needed to rise.

In May 2017, Governor Kate Brown appointed a task force to review and propose options for reducing PERS’ UAL. The Oregon School Board reported, “When market returns are lower, employers have to make up the difference or the UAL grows. Paying down the unfunded liability by \$5 billion would reduce employer payroll rates by 4%, according to a letter by Steven Patrick Rodeman, PERS executive director.”

The task force worked quickly and released their report on the November 1 deadline. The members developed about a dozen options to generate additional funding to reduce the PERS UAL by up to \$5 billion over the next five years.

According to the task force’s report, “The unfunded actuarial liability (UAL) has been the main cost driver behind increasing employer rates, but those costs are legacy costs associated with retirees that have accumulated because of the actions of past legislatures and PERS Board decisions.”

The 2018 Oregon Legislature took a handful of the task force’s recommendations and included them in Senate Bill 1566.

Senate Bill 1566 (2018) and employer relief programs

SB 1566 established the following employer rate-relief programs. The programs mainly focused on increasing side account deposits as a way to increase the Fund's assets as compared to liabilities.

Employer Incentive Fund (EIF)

Rewarded PERS-participating employers for depositing at least \$25,000 into a side account by matching up to 25% of the deposit or \$300,000, whichever was lower.

Amortization period for lump-sum payments

For employers who made a lump sum payment of \$10 million or more (not sourced from pension obligation bonds), the PERS Board allowed them to pick an amortization period of 6, 10, 16, or 20 years for that payment.

Unfunded Actuarial Liability (UAL) Resolution Program

This program required PERS to assist employers with developing plans to improve their funded status and manage their contribution rate changes into the future. Employers who applied for EIF matching funds were required to participate in the program.

School District Unfunded Liability Fund (SDULF)

This was a new, single, pooled side account for school district employers funded by proceeds from excess debt collection, capital gains tax, estate taxes, and unclaimed property.

Senate Bill 1049

At the end of the 2010s, the Oregon governor and legislative leaders continued to be under heavy pressure to do more to reduce the PERS debt. By 2019, PERS' UAL had grown to \$27 billion. The combination of overly generous pension calculation methods from the 1980s and '90s (called "legacy" liabilities) and financial market downturns (i.e., the "dot-com Crash" of 2000 and the Great Recession of 2008) created a large funding shortfall. Employer rates increased to make up the difference, which was putting a greater strain on employers and the state economy.

Two legislators proposed a more comprehensive bill than SB 1566 to stabilize employer contribution rates and enhance features in SB 1566. The new bill, called Senate Bill 1049, passed in a close vote of 31–29 on May 30, 2019.

PERS staff placed nonessential projects on hold to begin to tackle this large, complex bill. PERS formed a team to draft the budget, projects, and staff that would be required. PERS leased a portion of an additional building in Portland to house the extra staff.

Once the plans were in place, SB 1049 teams got right to work with only six months until the January 1, 2020, implementation of many aspects of the bill.

The 2020s (2020–2030): years of modernization

The 2020s began with PERS putting projects on the back burner to tackle implementing new legislation. The global COVID-19 pandemic began in March of 2020, creating additional complications for PERS staff, members, and employers, and the entire global community.

Senate Bill 1049 (2019) implementation

To make the numerous changes directed by the bill, PERS separated SB 1049 into six projects that would be implemented over two years:

Member Redirect

Starting July 1, 2020, SB 1049 required that members earning more than the monthly threshold in effect for that year (i.e., \$2,500 per month in 2020, increasing every year to keep pace with inflation) have a portion of their 6% Individual Account Program (IAP) contributions redirected to their new Employee Pension Stability Account (EPSA). Funds from the EPSA would be used to pay for part of the member's pension benefits at retirement. This program would reduce employer rates beginning in 2021.

Work After Retirement

For years 2020–2024, most retirees would have no limitations on the number of hours they could work for a PERS-participating employer and still receive their PERS pension benefit (restrictions applied for some early retirees and some retirees receiving Social Security benefits). Also, employers who hired PERS retirees would pay their contribution rate on those employees' just like they did with unretired employees. Those contributions would go toward the employer's assets.

UAL Re-Amortization

The PERS Board implemented a one-time re-amortization of the Tier One/Tier Two UAL over a closed 22-year period. This had the greatest effect on reducing UAL payments of any other SB 1049 program, but also lengthened the number of years that employers would be paying that debt.

Employer Programs

Three provisions of the bill (originally established by HB 1566) were combined under what was called Employer Programs.

- The Employer Incentive Fund (EIF) rewarded employers for creating a new side account by matching up to 25% of their deposit.
- The first round of the EIF was a success, bringing in more than \$549 million to the plan in the form of side accounts created by employers and matching funds deposited in those side accounts.
- The UAL Resolution Program (UALRP) provided tools and educational resources to support employers in learning more about and managing their contribution rates. Employers who applied for the EIF were required to participate in the UALRP.
- PERS released a new employer rate projection tool based on the CalPERS tool. The new tool would enable employers to forecast their rates using a modernized, web-based tool with greater functionality than the previous downloadable Excel tool.
- The School Districts Unfunded Liability Fund (SDULF), a side account for schools, was on hold until fully funded (as of 2021).

Salary Limit

Beginning January 1, 2020, SB 1049 changed the definition of "salary" for PERS purposes and created new limitations on annual and monthly "subject salaries." A member's subject salary is used to determine member IAP contributions, employer contributions to fund the pension program, and the final average salary used in calculating retirement benefits under formula methods. The 2020 limit was \$195,000 per year, which increased each year to keep pace with inflation. The limit would be prorated when members worked fewer than 12 months in a calendar year.

Member Choice

In 2020, members gained the option to invest their IAP balance in an IAP target-date fund (TDF) that better reflected their retirement savings goals. Members could stay in the fund assigned to their birth year or voluntarily choose a different TDF for the upcoming year, based on their personal risk tolerance.

Strunk and Eugene cases

In 2021, PERS began its final biennia of the *Strunk & Eugene* collection efforts which initially set out to collect \$170 million in overpayments. In 2005, PERS adjusted approximately 103,000 regular accounts for Tier One members not yet retired to reflect the 11.33% earnings crediting for 1999. In 2006, the PERS Board adopted an Order on Repayment Methods to satisfy the collection efforts, notifying those recipients who had received a benefit based on erroneous 1999 earnings crediting of the methods PERS intended to use to recover those overpayments.

The order applies to:

- 34,000 Tier One members who retired after March 1, 2000.
- 5,000 member withdrawals.
- 1,000 Tier One members with lump sum retirement installments.
- 1,400 death benefit recipients.
- 3,000 accounts split as a result of a divorce.

COVID-19 pandemic

In March 2020, the COVID-19 pandemic spread throughout the world, and Oregon was not spared from this public health crisis. Gov. Kate Brown declared a state of emergency that would last through 2020 and into 2021. Various stages of business and government shutdowns swept through the state throughout 2020. At PERS, more than 80% of employees pivoted from working in the office to working from home as state agencies closed their doors to the public.

PERS adjusted quickly and maintained service levels while working to support employees both through the personal stresses of a global pandemic and the confusing landscape of working 100% from home in many cases. Transferring to a work-from-home model was so successful that PERS leaders began planning a work model that would embrace some level of remote work.



PERS responded quickly to the COVID-19 pandemic and was able to maintain service levels while working to support members and employees.

The future of PERS

PERS' first 75 years were marked by constant change, ups and downs, and criticism and praise. No matter how rocky the road, the agency never faltered in its mission to provide the lifetime benefits that retirees earned during a career serving the people of Oregon.

Looking ahead, changes to PERS implemented over the last 20 years will begin to pay off. As OPSRP members increase and Tier One/Tier Two members decrease, costs should begin to level out, the funding level should increase, and employer rates should go down.

In the near future, PERS will continue working to implement legislative changes while providing top-notch customer service to all its members. Barring any large legislative changes, the next thing on the PERS “to-do” list is modernization of its base operating systems.

This modernization effort will ultimately build out new client service delivery models and define how PERS wants to inform, interact, and transact with both members and employers.

PERS also plans to offer:

- A redesigned website: A new website will serve as a comprehensive portal to resources for members and employers and will also be mobile-optimized to be more accessible.
- More digital services: By the end of the decade, members will be able to manage their benefits — and perhaps even retire — online.
- Faster systems: Upgraded servers and backend systems will mean faster operations with less downtime.
- Continued great stakeholder support: PERS, the agency, will continue to be available by phone and email to help members and employers navigate their PERS from their first day of work to their first day of retirement and beyond.

Finally, guided by its 2018–2023 Strategic Plan, the agency looks forward to upgrading the Oregon Retirement Information On-Line Network (ORION) with a newer, easier-to-use system that will provide greater capabilities and modernized interfaces for both members and PERS employees.



Looking ahead, changes to PERS implemented over the last 20 years will begin to pay off.

Appendix A: 75 years of PERS leaders

Agency executive secretaries/directors

- Jerry S. Sayler (1945–1950)
- Ried Stone (1950–1951)
- Max M. Manchester (1951–1970)
- James L. McGoffin (1970–1984)
- Kenneth A. Maul (interim director)
- Patricia F. Wiegert (1985–1988)
- Fred J. McDonnal (interim director)
- Sheryl Wilson (1989–1993)
- Fred J. McDonnal (1993–1999)
- David Bailey (interim director December 1999–February 2000)
- James Voytko (2000–2003)
- Laurie Warner (interim director November 2003–June 2004)
- Paul Cleary (2004–2014)
- Steven Rodeman (2014–June 2018)
- Yvette Elledge-Rhodes (interim director June 2018–July 2018)
- Kevin Olineck (July 2018–present)

The executive secretary position was replaced with an executive director position in 1971.

Board chairs

- W.C. Schuppel
- Ralph Thom
- W.P. Stalnaker
- Chalmers L. Jones
- Joseph J Adams
- William Holtsclaw
- Virgil H. Laughtry
- Roger S. Meier
- Stephen M. Telfer
- J. Edward Scroeder
- Pat Riggs-Henson
- Emile Holeman
- Dawn Morgan
- Michael Pittman
- James Dalton
- John Thomas
- Sadhana Shenoy

Board members

- W.C. Schuppel*
- Ralph A. Coan*
- James M. Burgess*
- I.A. DeFrance*
- Frank L. Emery*
- Joseph J. Adams
- C. Leonard Anderson
- Edwin H. Armstrong
- Frank B. Bennett
- Steven Bjerke
- Patricia Brown
- Christine Brown
- [Stephen Buckley**](#)
- Gertrude Chamberlin
- Elaine Ciafarone
- Jan Clemmer
- Christelle deAsis
- James Dalton
- Steven Demarest
- [Lawrence Furnstahl**](#)
- Mark Gardiner
- Jeanne Garst
- Robert W. Gormsen
- Thomas L. Greenwood
- Thomas Grimsley
- I.S. "Bud" Hakanson
- Glen Hankins
- Elizabeth Harchenko
- Charles R. Harding
- Glenn R. Harrison
- Robert H. Hazen
- Janice Hiserote
- Emile Holeman
- William Holtsclaw
- Darlene K. Hooley
- [Jardon Jaramillo**](#)
- Constance Jarvis
- Wallace E. Johnson
- Russell Joki
- Chalmers L. Jones
- June S. Jones, Sr.
- Michael Jordan
- Eva Kripalani
- Virgil H. Langtry
- Pamela Lesh
- James Loewen
- Mike Marsh
- Dan McCall
- Hugh McKinley
- Roger S. Meier
- Carlton G. Morehouse
- Dawn Morgan
- Kenneth Novac
- Peter Ozanne
- Anthony Palermini
- H. Dean Pape
- Harold F. Phillippe
- Michael Pittman
- George Russell
- Pat Riggs-Henson
- Brenda Rocklin
- [John Scanlan**](#)
- Eugene F. Schmidt
- J. Edward Schroeder
- Todd Schwartz
- Rhoni Seguin-Wiswall
- Guy Shellenbarger
- [Sadhana Shenoy**](#)
- W.P. Stalnaker
- Robert Straub
- Stephen M. Telfer
- Ralph Thom
- John Thomas
- Lester Von Flue
- Laurie Warner
- Gary Weeks
- Patrick L. West
- Thomas E. Whelan
- C. Patricia Wickman
- R. Jon Yunker

*Member of PERS' first board

**Member of board as of 7/1/2021

Appendix B: brief history of PERS firsts

- First PERS number, 0001, was assigned to Jerry Saylor. Saylor was also PERS' first executive secretary. His annual salary was \$5,000.
- First disability benefits check issued on May 8, 1947, to 23-year employee of the State Highway Commission.
- First person to receive retirement benefits was Isaac Howe. He retired on July 1, 1947, and received his first check in August 1947. He worked for the Oregon State Penitentiary.
- First PERS office was located in Portland at 426 Park Building.
- First board chair was W.C. Schuppel, who served from 1945 to 1955.
- First board members included W.C. Schuppel, Ralph A. Coan, James M. Burgess, I.A. DeFrance, and Frank L. Emery.
- First annual report was published in 1949.
- First PERS task force was appointed by Gov. Douglas McKay in 1952. The Citizens Committee was given the task of studying the system and making recommendations for improvements.
- Hospital indemnity coverage began in 1959.
- First automated member annual statements were produced in 1967.
- First members of the Oregon Investment Council were W.P. Stalnaker, Max Manchester, Don Ellis, Howell Appling Jr., and State Treasurer Robert W. Straub, appointed 1967.
- First pre-retirement meeting began in 1969. PERS' first stock investment was in 1969.
- First issue of the PERS member newsletter *Perspectives* was published in 1970.
- The 1997 Oregon Legislature added two trusts for PERS to administer: the deferred compensation trust and the Benefit Equalization Fund.

Appendix C: brief history of PERS investments

From PERS' inception in 1946 and for the next 20 years, the PERS investment plan was quite simple. Funds were invested in government and agency papers, corporate debt instruments, and mortgages. Interest earnings were generally between 2.5% and 3.25%. There was no controversy and no public outcry over investments. The account was growing steadily but not necessarily rapidly enough to keep up with the rate of inflation.

Among those who felt the PERS funds needed to be more wisely invested for higher earnings was Robert W. Straub, who served Oregon as a state treasurer and later as governor. When elected state treasurer in 1965, he immediately set up an investment division and hired a manager whose sole responsibility was investment. He moved quickly to shift some long-term funds into higher-yield, federally insured mortgages. To the consternation of bankers, he also pulled more than \$60 million out of demand deposits and poured the funds into interest-bearing investments.

What Straub wanted most, however, was the ability to invest in common stocks. He asked the Oregon Legislature to grant him that authority in 1965 and was quickly turned down. A year later, the Oregon State Employees Association (which later merged with SEIU 503) paid \$1,000 for PERS employee Jerry Liebertz to travel to study the Teacher's Insurance and Annuity Association/College Retirement Equity Fund option, which allowed members to put their funds into either a fixed program or a stock option. Liebertz returned with a solid stock-investment plan, and the association promptly introduced a bill to allow PERS to invest in the stock market.

In 1967, the hard work of Straub and others paid off, and the legislature passed a bill that allowed for investment of up to 10% of the retirement and insurance funds in common stocks. The chief restriction was the "prudent-person" rule, which says the funds must be invested as a prudent person would do.

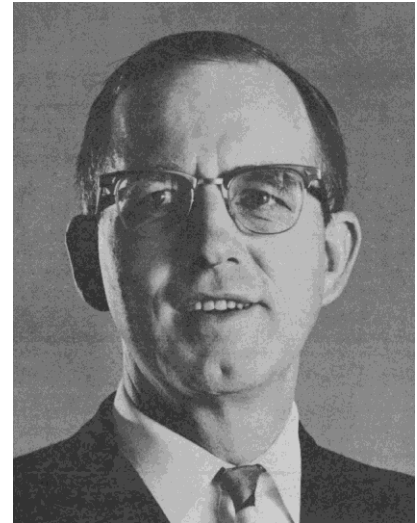
The same law also created the Oregon Investment Council to supervise the investment of all state of Oregon funds. According to a report Straub sent to Gov. Tom McCall in 1969, "This is to be done with the judgment and care which men of prudence, discretion, and intelligence exercise in the management of their own affairs."

The original council consisted of two members appointed by the PERS Board, W.P. Stalnaker and Max Manchester; two members appointed by the governor, Don Ellis and Howell Appling Jr.; and the Investment Officer, State Treasurer Straub.

While many applauded PERS' new ability to invest in potentially higher yielding funds, there were also those who strongly objected to the risks associated with the stock market.

To test the legality of the new bill, Fred Paulus and former Gov. Charles E. Sprague agreed to instigate litigation to prevent the council from buying common stock. A circuit court ruled in July 1968 that the bill was indeed unconstitutional because Oregon law prevents the state from ownership in private business. This ruling effectively ruined the whole program. Upon appeal to the Oregon Supreme Court, however, the decision was reversed in February 1969. The persuasive part of the argument to allow purchase of stocks was that the money to be invested was not state money at all; the funds instead belonged to public employees. A month later, Straub mailed out questionnaires to more than 50 qualified firms and met with nine of the most-qualified candidates to choose money managers. After thorough review of each firm, Straub selected Fayez Sarofim and Co., Capital Guardian Trust Co., and Transamerica Investment Counselors to manage the funds.

Throughout its history, the OIC has diligently worked to employ the best money managers they could find. With the exception of a brief period in the 1970s when the stock market did not do well, the stock



MARION COUNTY, PUBLIC DOMAIN,
VIA WIKIMEDIA COMMONS

Robert W. Straub believed PERS funds needed to be more wisely invested for higher earnings.

investments have performed exceedingly well and the Oregon Public Employees Retirement Fund (OPERF) has grown considerably.

In the late 1980s, the OIC changed to a six-member board and included the state treasurer, one member of the PERS Board appointed by the governor, three individuals from the private sector, and the PERS director. The PERS director is a non-voting member. That was further refined to have four members appointed by the Governor to four-year terms and who serve at the pleasure of the Governor. They must be qualified by training and experience in investment or finance and hold no other public office or employment, except one member may be a member of the PERS Board. Currently there has not been a PERS Board member appointed for quite a few years, as the emphasis has been on ensuring members had investment or finance experience.

The OIC is now supported by more than 40 State Treasury staff and runs a broad investment program with both internal and external mandates. As of December 31, 2020, the OPERF was in excess of \$85 billion.

Appendix D: brief history of Oregon Savings Growth Plan

- 1978** The Internal Revenue Code established Section 457(b), authorizing deferred compensation plans for governmental agencies. After being legislatively authorized in Oregon Revised Statute and further memorialized in Oregon Administrative Rules, the Oregon Savings Growth Plan (OSGP) was established for all State of Oregon public employees. OSGP was aligned under the state executive department.
- 1981** The plan began receiving its first deferrals from state employees.
- 1991** OSGP was realigned under PERS.
- 1999** The plan was modified to allow local governments to adopt the plan for their employees.
- 2006** OSGP began hosting an annual open house, which eventually drew about 300 people each year.
- 2016** OSGP worked with PERS staff to replace the open houses with an annual retirement exposition that would bring all of the retirement components: pension, deferred compensation, health insurance, Medicare, and Social Security, together for a one-day event open to all public employees.
- The first year, 1,000 people attended. Over the next few years, attendance rose to 3,000, which was the maximum capacity of the facility.
- 2020** Due to COVID-19 restrictions, the expo was held virtually (i.e., online rather than in person). More than 12,000 people visited the expo website to view the materials.
- Today** The plan has grown to 33,000 participants and assets in excess of \$3 billion. In addition to growing steadily, the plan has received prestigious industry and leadership awards from the National Association of Government Defined Contribution Administrators (NAGDCA) and the Plan Sponsor Council of America, as well as retirement periodicals such as *Pensions & Investments* and *PLANSPONSOR* magazines.

Appendix E: brief history of PERS health insurance

PERS has been a plan sponsor of retiree health plans since the late 1950s. Health insurance was a new concept at the time, and PERS offered a simple hospital indemnity plan that paid a hospitalized patient about \$15 a day. During the next 20 years, the benefits were improved and a basic plan was added to cover out-of-hospital expenses. The cost of the plans were fully paid by participants from the day the health plans were added.

When Medicare was introduced to the American public in 1965, the healthcare industry mushroomed and PERS moved to keep pace with the need for good health plans to supplement this new federal health plan. In the early 1970s, PERS added a Medicare supplement plan.

From their inception until July 1988, PERS health plans were fully paid by participants. There was no contribution from PERS. Participation in the plans ranged from 12,000 in 1981 to 9,000 in 1987. In July 1988, legislation was implemented to provide a subsidy payment from the PERS system toward a Medicare supplement for members who retired with eight years of service and enrolled in a PERS-sponsored plan. This supplement, or subsidy, is called the Retirement Health Insurance Account (RHIA) and is funded by assessment to all PERS employers.

With the advent of this new subsidy, PERS sought competitive bids for the health plans as well as for administrative services. PERS planned a strategy to offer an open enrollment opportunity for members not enrolled in the program. The agency also added a case-management and drug-use review program at this time, meeting the statutory requirement to offer plans with cost-containment features.

In 1991, legislation was passed to provide a subsidy for state retirees under age 65. Implemented in 1993 and administered by PERS, this subsidy was called the Retiree Health Insurance Premium Account (RHIPA) and is funded by an assessment against the state of Oregon only.

A dental plan added in 1992 offered reasonable rates, but steep rate increases were necessary for the first two renewals. Kaiser Dental was added as an option in 1993.

Another open-enrollment session was held in 1994 to correct adverse selection among the plans, the decrease in membership in Medicare plans, and the escalation of prescription drug costs, which were reduced by nearly 30%.

For many years, the healthcare program at PERS was staffed by one employee, the health insurance manager. The plan manager oversaw the needs of 40,000 health plan members and directed an administrative services contractor who provided member services and counseling.

Over the years, the program has grown in complexity as public policy, such as the implementation of Medicare Part D in 2006 and the Affordable Care Act (ACA) in 2010, altered the marketplace and the expectations of members. The public policy changes enabled growth to occur in the number of non-Medicare plans the PERS Health Insurance Program (PHIP) made available to members.

In 2012, an internal audit changed the structure of PHIP, setting expectations for greater internal controls, monitoring, and oversight processes. In 2013, a budget package was approved to increase the staffing from two to six personnel, with the understanding that the program would develop the required controls to mitigate the findings. From these changes, a new PHIP organizational structure was created.

In 2018, a request for proposal was awarded, and the number of Contracted Health Plan (CHP) carriers increased from four to five, expanding insurance plan options nationwide and adding additional operational program complexity.

By the end of 2020, PHIP was serving about 57,000 PERS retirees, spouses, and dependents. As the program has expanded, so too has the PHIP membership, which has increased in its diversity of geographic location and age. Members span from 50s to more than 100 years old, and about 95% of PHIP members receive Medicare benefits. The type of care needed at various life stages impacts the services that PHIP expects from the five CHPs. PHIP continues to negotiate medical, dental, and pharmaceutical benefits on behalf of PERS-eligible retirees, making it unique among the health-insurance options available in the marketplace.

Appendix F: brief history of PERS communications

From the onset, communicating with its members was a PERS' priority. However, early communication methods were tedious; for instance, making copies was laborious and required typing onto a stencil and cranking copies off by hand on a slow machine.

Careful of spending tax dollars, state policy required all state agencies to use the shortest version of a word that had more than one spelling. The printing process at the time used lead in publications, so each letter was seen as an added expense. Employee was a word that could be spelled one of two ways — with either one or two E's at the end of the word. By state regulations, PERS had to spell it with only one final E. Through the years, the agency received many calls and letters insisting that the organization was spelling the word incorrectly, and new employees invariably wondered why the agency kept leaving off that final e. The 1997 legislature officially changed the spelling to the more common one, and PERS now ends employee with two E's.

In 1949 the first annual report was published. An unsophisticated version by today's standards, it was above standard for its time and contained all the vital information both members and the general public needed to know about the agency.

The Oregon State Employees Association (now SEIU 503) was tightly connected to PERS and published frequent articles about the retirement system. PERS administrators frequently contributed articles about retirement issues, and in the 1960s an "Ask Freddie column" was printed monthly informing members about PERS matters.

As printing methods improved, so did the documentation sent to members. In 1967, automation of member annual statements began.

PERS options became complex as time went on, and in 1976, the agency began publishing a newsletter to keep everyone informed of options and changes to the plan.

In 1987, PERS produced a video to help employers educate new members about the agency. To ensure that members received prompt answers to their questions, a new phone system was installed in 1989 to allow for more incoming calls.

Desktop publishing came to PERS in 1990, making it easier and faster for PERS to create publications for members and PERS employees alike.

Up until the 2010s, each section within PERS handled its own communications. In the latter part of the decade, PERS leadership formalized the agency's communication efforts by forming an official Communications section. The agency hired communications professionals who would formalize the PERS brand, develop better and organized processes for sending mass communications, and begin work on transforming the PERS website into a more modern and user friendly source of information for members and employers.

Highlights

- 2017** Upgraded to newer state website version.
Began using GovDelivery as the agency's mass communications system.
- 2018** The agency rebranded itself as a "retirement education resource," which included a new logo, to better be recognized by members.
The Communications section was created as part of PERS Central Administration Division to be able to support the entire agency and external stakeholders.
- 2019** Created new animated videos to help members better understand the different parts of their retirement benefits.
- 2019** Added a member communications specialist and an employer communications specialist to better support different stakeholder communication needs.
- 2020** Hired an agency webmaster to spearhead the project to further update the PERS website, make it more user friendly, and optimize it for use on mobile devices.

Appendix G: brief history of significant legislation

PERS' originators knew that the plan would need to change and evolve if it were to survive. Over the years, PERS has been the subject of much debate and no legislative session has gone by without PERS-related bills. Sometimes changes have been minor, sometimes major. Sometimes crucial bills have been passed, other times they failed. The table below outlines significant legislation through 2019.

History of key PERS benefit enhancements, caps, and reductions

Year	Category	Action	Affected Members
1945	Administrative	The Public Employees Retirement System is signed into law and begins business July 1, 1946, as a money match retirement plan	All
1947	Retirement Age/Vesting	Requirement for employees to serve a six-month waiting period before becoming PERS members begins	All
1953	Administrative	By law, the PERS plan is terminated and immediately reopened the next day, allowing public employers to provide Social Security coverage	All
1967	Investment Risk Allocation	Legislature passes a bill that allows PERS to invest up to 10% of the retirement fund in common stock, creates the Oregon Investment Council, and establishes a defined benefit formula for employer-funded retirement benefits (formula plus annuity)	All
1969	Investment Risk Allocation	Participation in variable account program begins	All
1972	Cost-of-Living Adjustment	Implemented <i>ad hoc</i> COLA increase (12% to 25% benefit increase)	Existing retirees
1972	Cost-of-Living Adjustment	Initiated an annual COLA with a 1.5% cap	All retirees
1973	Benefit Calculation/Formula	Increased Formula Plus Annuity pension factors (General Service: .67 to 1.00; Police & Fire: 0.92 to 1.35)	Tier One
1973	Cost-of-Living Adjustment	Annual COLA cap raised from 1.5% to 2%	All retirees
1973	Cost-of-Living Adjustment	Capped COLA at actual inflation rate or 2%, whichever is less	All retirees
1973	Final Average Salary	Added accrued sick leave to retirement benefit calculation for participating employers	Tier One/Two
1974	Cost-of-Living Adjustment	Implemented <i>ad hoc</i> increase (0% to 25% benefit increase)	Existing retirees
1975	Investment Risk Allocation	Initiated member account assumed rate guarantee	Tier One
1975	Investment Risk Allocation	Increased assumed earnings rate from 5.5% to 7%	Tier One
1975	Investment Risk Allocation	Credited member regular accounts with more than the assumed earnings rate*	Tier One
1976	Investment Risk Allocation	Gain Loss Reserve established to "self-fund" assumed earnings rate crediting	Tier One
1979	Administrative	Employers allowed to "pick up" member 6% contribution	All
1979	Investment Risk Allocation	Increased assumed earnings rate from 7% to 7.5%	Tier One
1981	Benefit Calculation/Formula	Added Full Formula benefit calculation method	All
1981	Benefit Calculation/Formula	Consolidated member contributions from 1% to 7% salary-based sliding scale to universal 6%	All
1981	Benefit Calculation/Formula	Eliminated Formula Plus Annuity benefit calculation method	Tier One
1981	Cost-of-Living Adjustment	Implemented <i>ad hoc</i> COLA increase (4% to 11.4% benefit increase)	Existing retirees
1985	Cost-of-Living Adjustment	Implemented <i>ad hoc</i> COLA increase (3% to 7.28% benefit increase)	Existing retirees
1985	Benefit Calculation/Formula	Added benefit option to allow lump-sum payment of member account	All
1987	Benefit Calculation/Formula	Members allowed to purchase six-month waiting period	All
1987	Benefit Calculation/Formula	New retirement benefit payout options added	All
1989	Cost-of-Living Adjustment	Implemented <i>ad hoc</i> COLA increase (0% to 25% benefit increase)	Existing retirees
1989	Investment Risk Allocation	Increased assumed earnings rate from 7.5% to 8%	Tier One
1989	Retiree Health Benefits	Established Medicare and state employee pre-Medicare insurance premium subsidies	Tier One/Two

*Tier One regular accounts were credited with earnings in excess of the assumed rate in the following years: 1975, 1976, 1979, 1980, 1982, 1983, 1985, 1986, 1988, 1989, 1991, 1993, 1995, 1996, 1997, 1998, and 1999. In all other years subsequent to 1975, these accounts were credited at the effective assumed rate.

Key:	Benefit enhancement	Benefit cap or reduction
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PERS History

Year	Category	Action	Affected
1989	Retiree Health Benefits	Capped Medicare premium subsidy at \$60 per month	Tier One/ Two
1989	Retirement Age/Vesting	Added "30 years of service" retirement regardless of age	Tier One/ Two
1991	Benefit Calculation/Formula	Imposed state income tax on PERS benefits	All
1991	Benefit Calculation/Formula	Established service time-based state income tax offset benefit of between 1% to 4% (SB 656)	Tier One
1993	Administrative	Divorced spouses entitled to separate account from member's	All
1995	Benefit Calculation/Formula	Established state income tax offset benefit for pre-1991 service time (HB 3349)	Tier One
1995	Benefit Calculation/Formula	Eliminated tax remedy for anyone hired after July 14, 1995	All new hires
1996	Final Average Salary	Excluded lump-sum vacation payouts from final average salary	Tier Two
1996	Investment Risk Allocation	Eliminated guaranteed return on regular accounts for new members	Tier Two
1996	Retirement Age/Vesting	Increased normal retirement age for new members from 58 to 60 (General Service)	Tier Two
1997	Administrative	Married members must provide proof of spousal consent for retirement option choice	All
1997	Administrative	Reemployed retirees can work up to 1,040 hours for a PERS-covered employer without loss of benefits (up from 600 hours)	All
1997	Benefit Calculation/Formula	Out-of-state teaching service and some military purchases allowed	All
1999	Benefit Calculation/Formula	Locked in existing actuarial equivalency factor tables	Tier One
2000	Investment Risk Allocation	Eliminated "Last Known Rate" member account crediting guarantee	Tier One
2003	Benefit Calculation/Formula	Decreased Full Formula benefit pension factor (General Service: 1.67 to 1.50; Police & Fire 2.00 to 1.80)	OPSRP
2003	Benefit Calculation/Formula	Eliminated Money Match benefit calculation method	OPSRP
2003	Benefit Calculation/Formula	Redirected member contributions to freeze Money Match benefit levels	Prospective MM retirees
2003	Benefit Calculation/Formula	Required regularly updated mortality assumptions and actuarial factors	All
2003	Cost-of-Living Adjustment	Pro-rated first year COLA	OPSRP
2003	Cost-of-Living Adjustment	Eliminated COLA "bank" carryover	OPSRP
2003	Final Average Salary	Eliminated lump-sum vacation payouts from subject salary	OPSRP
2003	Final Average Salary	Eliminated accumulated sick leave from final average salary	OPSRP
2003	Investment Risk Allocation	Required members to self-fund guaranteed return on member accounts	Tier One
2003	Investment Risk Allocation	Creates IAP to include all member contributions made on or after January 1, 2004, which receives actual returns with no guarantee	All
2003	Retiree Health Benefits	Eliminated post-retirement health insurance premium subsidies	OPSRP
2003	Retirement Age/Vesting	Increased normal retirement age from 60 to 65 (General Service) 55 to 60 (Police & Fire)	OPSRP
2003	Retirement Age/Vesting	Increased vesting from 5 years or age 50 to 5 years or age 65 (General Service) or age 60 (Police & Fire)	OPSRP
2005	Benefit Calculation/Formula	Adjusted member accounts and benefit payments to recapture 1999 earnings overcrediting	Tier One
2009	Retiree Health Benefits	Allowed OPSRP members to participate in PERS retiree health insurance pools without premium subsidy	OPSRP
2011	Benefit Calculation/Formula	Eliminated HB 3349 tax remedy for prospective retirees who move out of state on or after January 1, 2012	Tier One

Key: Benefit enhancement Benefit cap or reduction

Continued on following page

Year	Category	Action	Affected
2013	Cost-of-Living Adjustment	1.5% in 2013; COLA in 2014 and beyond is 1.25% on the first \$60,000 of an annual benefit; 0.15% on amounts above \$60,000	All
2013	Supplementary Payments	Annual supplementary payments of 0.25% to all benefit recipients (up to \$150) through 2019. Second annual supplementary payment of 0.25% through 2019 if benefit is \$20,000 or less annually	Retirees
2013	Benefit Calculation/Formula	Eliminated any tax remedy for retirees who do not pay income taxes in Oregon because they are not residents of Oregon	Tier One
2014	Investment Risk Allocation	Decreased assumed earnings rate from 8.0% to 7.75%	Tier One
2015	Supplementary Payments	Supplementary payments invalidated by Oregon Supreme Court	Retirees
2015	Cost-of-Living Adjustment	Annual COLA of up to 2% restored for service time accrued before October 1, 2013. COLA for service time after that date uses a lower rate. Service time accrued in both periods is "blended."	All
2016	Investment Risk Allocation	Decreased assumed earnings rate from 7.75% to 7.50%	Tier One
2017	Investment Risk Allocation	Decreased assumed earnings rate from 7.50% to 7.20%	Tier One
2017	Investment Risk Allocation	Oregon Investment Council changes IAP investment strategy to Target-Date Funds, intended to reduce investment risk and volatility as members age	All
2019	Administrative	Alternate method to calculate death benefit for certain Tier One/Tier Two members who die before retirement	Tier One/ Tier Two
2019	Benefit Calculation/Formula	Reduces member contributions to IAP. Establishes limit on salary used for benefit calculations	All

Appendix H: brief history of court cases

- 1967** The Oregon Legislature passes a bill that allows PERS to invest up to 10% of the retirement fund in common stock, and Oregon Revised Statute (ORS) 293.706 creates the Oregon Investment Council to oversee the stock investments. Another bill establishes a defined benefit formula for employer-funded retirement benefits (formula plus annuity).
- 1968** A circuit court rules that the bill allowing for stock investment is unconstitutional.
- 1969** The Oregon Supreme Court reverses the circuit court decision regarding stock investment.
- 1978** Unisex annuity tables for future PERS retirees come about as a result of federal court decisions based on alleged sex discrimination.
- 1989** The U.S. Supreme Court rules in *Davis v. Michigan* that federal and state retirees must receive equal tax treatment. Oregon begins taxing state retirees in 1991 rather than exempting federal retirees.
- 1992** The Oregon Supreme Court rules taxing of PERS benefits a breach of contract (*Hughes v. State of Oregon*).
- 1996** The Oregon Supreme Court declares that all provisions of Ballot Measure 8 violate the U.S. Constitution's contracts clause.
The Oregon Supreme Court overrules the Marion County Circuit Court (lifts injunction), upholds House Bill 3349 as remedy for taxing PERS benefits, and finds that the PERS Fund can be used to pay increased benefits. All participating employers must pay for increase.
- 1997** The Marion County Circuit Court issues settlement order closing litigation on state taxation of PERS benefits (*Stovall/Chess v. State of Oregon*).
- 2001** *City of Eugene v. State of Oregon, Public Employees Retirement Board*. Several employers and members sue to challenge PERS policies on actuarial factors, variable match, and earnings crediting. Marion County Circuit Court Judge Paul Lipscomb remands the PERS Board's orders allocating 1999 earnings and setting employer rates for the petitioning employers. Challenges to the case continue in 2003, 2005, and 2009.
- 2003** Challenges to reform legislation immediately follow the signing of House Bill 2020. They are consolidated into a case commonly referred to as the *Strunk* case, which reaches the Oregon Supreme Court.
City of Eugene case: The PERS Board is directed to reissue the orders in light of the judge's final 2003 ruling on many PERS practices, such as actuarial factors, variable account calculations, and reserving.
- 2005** The Oregon Supreme Court rules that the cost-of-living-adjustment (COLA) freeze enacted by the 2003 Oregon Legislature to recover overpayments from earnings crediting in 1999 was invalid. The court also determines that PERS must annually credit the assumed rate, currently 8%, to Tier One member regular accounts. PERS had credited 0% to Tier One regular accounts in 2003 based on legislation passed that year.
The Oregon Supreme Court issues its decision in the *City of Eugene* case on August 11, 2005. The court rules that the Settlement Agreement and 2003 PERS reform legislation resolved the issues in the case. The PERS Board and the original plaintiffs in the case enter into the Settlement Agreement, which requires PERS to reallocate 1999 earnings to Tier One benefit recipient accounts at 11.33% instead of 20%.
- 2006** Two groups file challenges to the PERS Board's Order on Repayment Methods. These cases challenge PERS' actions to collect the overpayments that resulted from erroneously crediting 20% earnings to Tier One member regular accounts in 1999:
- All benefit recipients, contending that PERS' recovery is limited to administrative expenses under Section 14b of HB 2003 in the PERS Reform bills (*Robinson v. PERS*).

- “Window retirees” (Tier One members who retired on or after April 1, 2000, and before April 1, 2004, under the Money Match benefit calculation method) contend that the *Strunk* decision created an entitlement by this group of their fixed benefit as of July 1, 2003 (*Arken v. PERS*).
- 2007** Multnomah County Circuit Court Judge Kantor issues an Opinion and Order in favor of the *Robinson* plaintiffs, finding that:
- PERS is limited to recovering any overpayments from administrative expenses; it cannot recover funds from benefit recipients. The PERS Board’s Order on Repayment Methods is invalidated.
 - Payments received from recipients to recover overpayments should be returned to them and future adjustments cannot collect the overpayments.
 - COLA should be applied to all eligible benefits as of July 1, 2007.
- 2008** To clarify his June 2007 ruling, Judge Kantor issues another Opinion and Order. He finds that the *Arken* plaintiffs are not entitled to their fixed benefit plus COLA, but are still protected from recovery of overpayments by Section 14b of HB 2003. PERS timely appeals the *Arken* and *Robinson* cases.
- Judge Kantor leaves untouched his prior ruling in the *Robinson* case that PERS’ only option is to treat overpayments as administrative expenses. Judge Kantor also rules that the *Arken* plaintiffs can “seek the same relief sought by the *Robinson* petitioners.”
- 2009** *White v. PERB*. This is the last remaining court case in response to the City of Eugene litigation. The case challenges the legal authority of the PERB to settle the City of Eugene case instead of appealing, as well as a number of PERS administrative actions taken as a result of the settlement. Judge Kantor rules in PERS’ favor in 2009 in a challenge to the terms on which PERS settled the *City of Eugene* litigation in 2004 and allocated earnings and reserves for 2003 and 2004. The case is appealed to the Oregon Supreme Court.
- 2010** Oregon Court of Appeals hears arguments in the *Arken* and *Robinson* cases on September 2, 2010.
- 2011** The Oregon Supreme Court issues its decision in the *Arken* and *Robinson* cases, reversing the Multnomah County Circuit Court decision in *Robinson*, upholding the decision in *Arken*, and allowing PERS to recover overpayments from retirees. The court also upholds the trial court decision in *White v. PERB* (2009).
- 2012** PERS resumes collection of the invoices generated by adjusted benefits in accordance with the *Strunk* and *City of Eugene* decisions.
- 2013** Members file petitions with the Oregon Supreme Court challenging Senate Bill (SB) 822 (2013) and SB 861 (2013) regarding changes made to cost-of-living adjustments and tax remedy (*Moro v. State of Oregon*).
- 2015** The Oregon Supreme Court issues its decision in the *Moro* case, ruling that SB 822 and SB 861 are unconstitutional to the extent that they were retroactive. The court tied the COLA to time at which the benefits are earned and ruled that any change in COLA can only apply to benefits earned after the effective date of the change. The decision requires PERS to now apply a “blended” COLA to benefits based on when the benefits were earned.
- 2019** Members timely filed petition with the Oregon Supreme Court challenging portions of SB 1049 (2019) regarding the annual salary limit and the redirection of a portion of member contributions to a new member account, the Employee Pension Stability Account (*James v. State of Oregon*).
- 2020** The Oregon Supreme Court issues its decision in the *James* case, upholding the challenged salary limit and member redirect provisions of SB 1049 (2019).



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