

# AARP IN THE STATES



## SNAPSHOT: Oregon Public Employees Retirement System

The Oregon Public Employees Retirement System (PERS) provides benefits to qualified public employees and teachers. Since 2003 PERS provides a combination plan for public employees that offers a defined benefit (DB) pension and a defined contribution (DC) retirement plan.

### The PERS Pension Works for Oregon Stakeholders



Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.



The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.



Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

### Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee plans is shared by employees and employers. PERS employees do not contribute to the DB pension but contribute 6% of their pay into the DC plan. Over time, investment income earned by the DB pension plan does most of the work. In fact, between 1993 and 2014, taxpayers paid only 20.7% of the cost of benefits.

74.9%  
Investment  
Earnings



20.7%  
Employer  
Contributions

4.4%  
Employee  
Contributions

### Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10%



cost savings from pooling longevity risk



11%



cost savings from optimal asset allocation



27%



cost savings due to higher returns and lower fees



48%



total cost savings

## PERS Key Facts



Oregon PERS serves 217,601 active employees and 136,435 retired members and survivor beneficiaries.



PERS employees do not contribute to the DB pension but contribute 6% of pay into the DC plan.



Employers contribute 10% to the DB plan for employees.



The average monthly retirement benefit for members is \$2,561.



After a 30-year career, PERS will replace 45% for the DB plan of an employee's pre-retirement income and the income from the DC account will vary by employee.

## Historical PERS Funding Experience

Oregon established long-term funding policies to provide for the cost of public plan benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2016 year, PERS had \$65.4 billion in assets in the system.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund becomes financially sound over time.

**Oregon Paid 88.3% of Weighted Average Percent of ADC from FY2001-FY2015 for PERS**



## Oregon Made Plan Changes to PERS in Recent Years

Following the global stock market crash in 2008-2009, Oregon policymakers proactively made changes to PERS to ensure long-term sustainability. These included:

- Reducing the cost of living adjustments for active and new employees to benefits earned after October 2013.
- Eliminating a tax remedy benefit for some pension benefits paid out of state.

## The Economic Impact of Oregon Pensions:



**\$5.1 billion**

in economic output generated by retirees' spending from public pensions in Oregon.



**36,626 jobs**

paying \$1.64 billion in wages supported by retirees spending from public pensions in Oregon.



**\$1.1 billion**

in federal, state, and local tax revenues generated by retiree benefits and spending in Oregon.

All data come from Oregon, Public Plans Data, or the National Institute on Retirement Security.

# AARP IN THE STATES



## BY THE NUMBERS: Oregon Public Employees Retirement System



The **Oregon Public Employees Retirement System (PERS)** provides a combination plan for public employees. New employees participate in a defined benefit (DB) pension plan and a defined contribution (DC) retirement plan. The Individual Account Plan (IAP) benefits vary based on contributions, earnings, and age at retirement. Pension payments help to support the state's economy.

### Key facts about the plan and its benefits:



**217,601**

Total active members of the Oregon Public Employees Retirement System.



**45%**

After a 30-year career, the PERS pension replaces 45% of an employee's pre-retirement income and the income from the DC account will vary by employee.



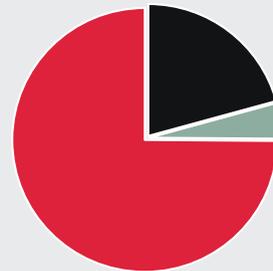
**\$2,561**

Typical plan benefit paid to retired PERS members each month.

### Public plans are a good deal for taxpayers:

Funding of public employee plans is shared by employees and employers. New PERS employees do not contribute to the DB pension but contribute 6% of their pay into the IAP. Over time, investment income earned by the plan does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid only 20.7% of the cost of plan benefits.

**74.9%**  
Investment Earnings



**20.7%**  
Employer Contributions

**4.4%**  
Employee Contributions

### The spending from the retirement checks of the 136,435 retired public employees helps support:



**\$5.1 billion**

in economic output in Oregon.



**36,626 jobs**

paying those workers in Oregon \$1.6 billion in income.



**\$1.1 billion**

in federal, state, and local tax revenues based on benefits and spending in Oregon.

### Retirement benefits are a good deal for the economy too:

Each dollar "invested" by Oregon taxpayers (employers) in these plans supported **\$6.11** in total economic activity in the state.



**\$1.00**



**\$6.11**



All data come from Oregon, Public Plans Data, or the National Institute on Retirement Security.



### Pensions Help Deliver Quality Education in Oregon

Defined benefit (DB) pensions play a fundamental role in retaining high-quality, experienced teachers in the classroom. These effective, experienced teachers are the most important school-based element that provides quality educational outcomes for our children.

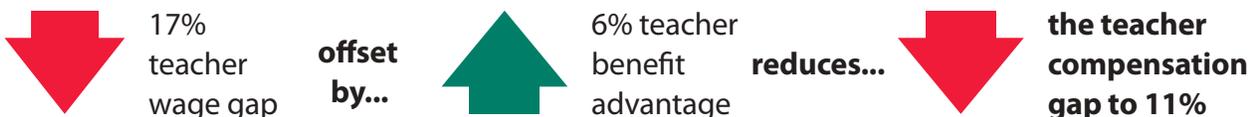
A wide body of academic research on teacher productivity finds that teachers become more effective with experience. These studies demonstrate that experienced teachers have students who achieve at higher levels. In contrast, when experienced, mid-career teachers are replaced by inexperienced teachers, other studies show productivity drops across the school.

DB pensions give schools an effective tool to retain experienced teachers. These benefits provide teachers an incentive to continue delivering quality education to K-12 students.<sup>1</sup> This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college educated workers, widens for more experienced teachers.

There are important policy reasons to continue offering teachers DB pensions. Because pensions help attract and retain workers, Oregon can keep teachers in the classrooms and empower students to achieve their highest potential.

### Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 17 percent pay gap relative to comparable private sector workers in 2015. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 11 percent. In Oregon, teachers experience a 22% wage gap when compared to other college graduates in the workforce.<sup>2</sup>



Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



92 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



81 percent of Americans agree that teachers deserve pensions to compensate for lower pay.<sup>3</sup>

# Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.<sup>4</sup>

**6.4%**



Percentage of teachers who leave education.

**265**



The number of teachers retained each year due to the DB pension.

**\$1.2B to \$2.5B**



The DB system savings in teacher turnover costs in school districts across Oregon.

## PERS Key Facts



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New PERS employees do not contribute to the DB plan and contribute 6% of pay into the DC plan.



Employers contribute 10% to the fund.



The average monthly retirement benefit for members is \$2,561.



PERS has \$65.4 billion in actuarial value of assets and \$16.2 billion in unfunded actuarial accrued liability.<sup>5</sup>

## The Economic Impact of Oregon Pensions

**\$5.1 billion**



in economic output generated by retirees' spending from public pensions in Oregon.

**36,626 jobs**



paying \$5.1 billion supported by retirees spending from public pensions in Oregon.

**\$1.1 billion**



in federal, state, and local tax revenues generated by retiree benefits and spending in Oregon.<sup>6</sup>

<sup>1</sup> Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

<sup>2</sup> Allegretto, S. A. and Mishel, L. 2016. "The Teacher Pay Gap Is Wider than Ever." Washington, DC. Economic Policy Institute.

<sup>3</sup> Oakley, D. and Kenneally, K. 2017, Pensions and Retirement Security 2017: A Roadmap for Policy Makers. Washington, DC. NIRS.

<sup>4</sup> Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement."

<sup>5</sup> All data, unless otherwise noted, as of fiscal year ended 2016.

<sup>6</sup> Brown, J. 2016. "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.