



The Oregon Public Employees Retirement System History  
The First 60 Years

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

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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 over age 50.

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.

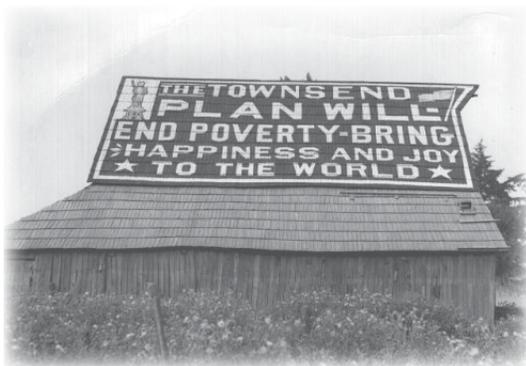
As villages and small cities crept across the Oregon landscape, opportunities for businesses lured young men and women away from traditional homesteads. Dependent on wages rather than on self-sufficiency, the economic security of many Oregonians could now be threatened by recessions, layoffs, injuries, and old age. The idea of a pension plan was no longer a peripheral concern, and retirement programs were mentioned with increasing frequency.

### First pension plans

In 1857 the New York City police established the United States' first municipal benefit plan. Within a decade, the 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 single, 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.

U.S. Senator 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 doctor who found himself unemployed without savings, took up the battle for the elderly and drafted the *Townsend Old Age 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 two-percent national sales tax, the three eligibility requirements were that 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*, he wanted 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 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



*President Franklin D. Roosevelt*

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.

## Oregon's old-age pension trials and triumphs (pre-PERS)

### Early retirement plans



*Early Oregon schoolhouse.*

Oregonians were not idle while other states looked into pension programs for their public employees. In 1911 Oregon teachers organized a statewide pension fund, The Fireman's Relief and Pension Fund started in 1913, and the Policeman's Fund began in 1918. 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 very specific criteria. Employees from both the public and private sector could qualify. Payments were low, however, and the program was short-lived.



*Early Oregon firemen.*

When Social Security was signed into law in August 1935, many employees in private industry breathed a sigh of relief. But since 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 statewide retirement plan

Herman Kehrl, 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.



*Governor Sprague*

Governor 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.

Governor 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 their 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 percent of the public employees in Oregon were covered by some retirement system, while 46 percent 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. Kehrlı, DeFrances, 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 Kehrlı and administrators of retirement plans in states across the country. Insurance companies were solicited for actuarial estimates, and figures and charts piled up in Kehrlı’s office. Finally, in the winter of 1945, House Bill 344 began to take shape.

## The 1940s: PERS early years



Aerial view of Oregon Capitol.

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 Governor 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 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, Friday, March 17, 1945, the bill passed.



Governor Snell.

After nearly half a century of struggle, PERS was official March 26, 1945, when Governor 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*: “German 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 benefitted by 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

### Early concerns and problems



Oregon highway, 1950.

Less than five years into the program, PERS members began to grumble that retirement benefits were inadequate. Indeed, inflation between 1939-1952 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 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 \$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) become 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 million 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 OSEA, wrote to Herman 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... once 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, UCC, and Public Health... The Republicans are in power now and we may have nothing to fear, but we

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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, not 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 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 over 65 continued to work while others were not allowed to.

At the request of the 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’s 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.”

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. These traits would all be needed in the coming years.

## The 1960s: years of change



*President John F. Kennedy at Portland Airport, 1960s. Photo courtesy of Oregon Historical Society.*

The 1960s were a time of rapid change in the U.S.

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 percent), 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 percent 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, and 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 one percent, which would increase annual benefits by 25 percent.

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 OSEA 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."

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Belton was far more conservative in his view and felt investing up to 50 percent in stocks was far too risky. Straub won the election and was a strong advocate for PERS' right to invest in stocks.

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 could retire on \$52.65 a month. "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, OSEA retirement committee chairman, came down hard on the legislators, writing in the OSEA 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 card 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 make 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 OSEA planned a day-long conference in October on improving PERS, urging all members to participate. Over 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 OSEA's retirement committee completed an extensive study of retirement systems in other states. As reported in the April 1966 OSEA 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, special-district employees, and public officials.

The subcommittee created to study PERS improvement came to the Legislative Fiscal Committee with a number of recommendations. By a four-to-four vote, the Legislative Fiscal Committee turned down the recommendations in July 1966.

However, in October of the same year, the same committee reconsidered its decision and voted to 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 percent 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 percent of the first \$6,600 in salary, and 7 percent in excess of that amount.
- 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.”

### Stock investment



The tremendous efforts of the Oregon State Employees Association (OSEA), the Oregon School Employees Association, 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 was created to invest a portion of the fund in stocks.

No time was wasted protesting the change of investment policy and 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 Governor Charles A. Sprague and Fred H. Paulus. Defendants were State Treasurer Robert W. Straub and members of the Oregon Investment Council—Straub, Max Manchester, W.P. Stalnaker, Howell Appling, Jr., and Don Ellis.

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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 Oregon Investment Council (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 Robert W. Straub to oversee the funds were Trans-america Counselors, Inc., of Los Angeles; Capitol Guardian Trust Company of Los Angeles; and Faye Sorofim Company of Houston. Initial investment was \$42 million, 10 percent 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



The social changes and political upheavals of the 60s continued into the 70s, 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.

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 "proposer" of retirement improvement changes rather than to be 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.

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 discontinue their contributions in 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 OSEA spokesman 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 percent 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 percent of the fund was also introduced and passed. Two New York firms, Jennison Associates and B.E.A. 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 percent.

Encouraged by the changes, the Oregon PERS Conference Steering Committee, organized under OSEA 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 1973 achieved a number of these goals:

- It increased the percentage factor used in computing retirement benefits.
- It permitted employees to retire at age 60 after 30 years of service, or at 62 after 25 years; or at age 57 after 20 years.
- It increased the cost-of-living adjustment from 1.5 to 2 percent.
- It granted a 25 percent 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 three satellite offices for counseling aid—one in Salem, one in Eugene, and one in Pendleton.

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 due to stock market losses. Despite the fact that Oregon's stock investment program had a better yield than most in 1973, alarm spread quickly.

State Treasurer James A. Redden, 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. However, after attending the meetings, the majority of employees felt no change should be made in investment policy.

Representative 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 percent in 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 percent 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.

In the second half of the 70s, PERS received an infusion of energy from Wilma Hogle, a secretary with the 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 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.”

In the late 70s 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

included prior service credit regulations, “buy back” of funds withdrawn, and qualification of certain employees as police and firefighters.

Jerry Liebertz says 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 Board increased to nine members.

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, that aroused the most interest.

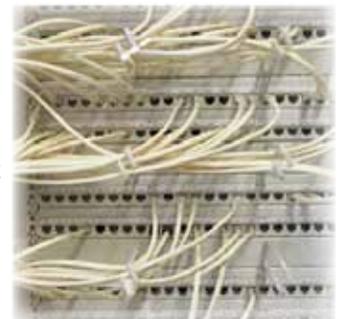
Several PERS investments became highly controversial, and everyone of voting age seemed to have an opinion about how to invest PERS funds. What many people failed to take into account was that the fund belonged not to the state, not to the taxpayers, but to PERS members. OIC’s requirement was to invest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

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 percent. 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.

So, 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 inhouse 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, 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.

## The 1990s: into the next century



The decade of the 1990s could be known as the decade of bills and ballot boxes. During no decade in its history to date, except perhaps for its earliest years, was PERS subject to more intense scrutiny than during the 1990s. Legislation, ballot measures, task force studies, and litigations kept PERS very much in the public eye.

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 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 very 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 Section 415. Largely because of differences between Oregon statute and the IRS in the way final average salary was calculated, some PERS retirees exceeded the Section 415 limit.

This issue was largely resolved when President 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 percent 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.

### 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 percent 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 six percent 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 which 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 percent 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 which 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 3349 in response to the court’s decision. This bill was also 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 percent as compensation for taxes paid. In February 1997 PERS increased monthly benefits to eligible retirees, and in September 1997 PERS mailed approximately \$380 million in retroactive payments to cover the period between October 1991 and February 1997.

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

### **Technology**

Technology exploded during the later 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.



While 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 due to a 21 percent 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 and so the agency turned to technology to mitigate the situation. As fiscal year 1997

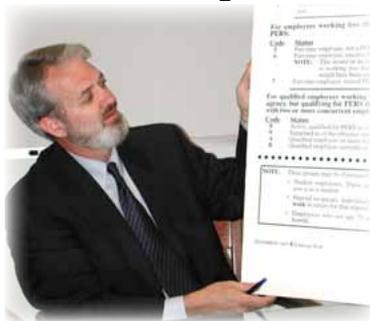
drew to a close, a reengineering project was underway.

In the midst of all the studies, reengineering, and scrutiny, PERS also faced what was commonly known as the Y2K situation, 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? Recognizing 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 our 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.

## 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, approximately 8,200 PERS members retired, 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 percent of their retirement fund into U.S. stocks in what was called the variable account. At retirement, the employer matched that total. This created an ideal financial situation for many retirees. Employers were not so happy with the situation since 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. This 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) 457 program, and the Benefit Equalization Fund was created to serve as a vehicle for employers to meet contractual obligations to members for pension benefits that exceed IRC 415 limits and not eligible for payment under the PERS plan.
- PERS moved into its own building in June 1997, which, it was anticipated, would 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 to members.
- Executive Director Fred McDonnal, who had served the agency 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 very 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 1946-1964—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 employers.

PERS has enjoyed a reputation for outstanding customer service. The agency's current management was committed to taking the steps necessary to maintain this status throughout the retirement of the baby boomers and beyond, and by doing so continue to achieve PERS' 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 June 1997.*

**Editor's note: This history was originally written when PERS turned 50. It has been updated from this point forward.**

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## PERS 1997-2007: The change years

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, World Wide Web usage expanded from 100,000 websites in 1996 to nearly 1.5 million sites within two years; eBay, an online auction house, made online shopping mainstream; and dotcom businesses sprouted throughout cyberspace as businesses and entrepreneurs clamored to enter the world of e-commerce.

By the early 2000s, the dotcom 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 2008, the United States had the highest deficit in its history, the country had been attacked by terrorists, and was in a war in Iraq. The stock market had suffered devastating losses and both the financial and auto industries were in serious jeopardy in 2008. In short, shortly after the sixth decade came to a close, the country's financial and domestic security were both sitting on shifting sands vulnerable to swift, unpredictable winds.

### PERS overview

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, due to both 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 percent.

The single most significant event in 2003 was PERS Reform Legislation.

## Major events

### 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.)

### New trusts added to PERS' administrative responsibilities

The 1997 Oregon Legislature added two trusts for PERS to administer—the deferred compensation trust and the Benefit Equalization Fund.

### Record gains and losses keep PERS spinning

As PERS began its sixth decade, the stock market was strong. With the Internet providing investors an 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 invested in stocks before entered the arena and watched the Dow Jones Industrial Average (DJIA) as closely as they watched the sports page. From 1996 to 1999, the DJIA nearly doubled in value.

Many PERS members opted to put some of their money (members were allowed to invest 25, 50, or 75 percent of their contributions) in the variable account and were rewarded with uncommonly high return rates. PERS investments also grew with unprecedented speed, and the 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 DJIA gave back most of the late-90s gain, and the markets continued to be volatile.

The public began to be concerned with PERS' unfunded liability, and PERS became a major political issue. (See The call for PERS Reform below.)

The notable gains in members' variable accounts proved detrimental to employers. PERS is required by statute to give members the highest benefit calculation, and Money Match frequently proved to be the highest method 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 employer accounts had simply not kept up with their employees' 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 2003 and continued to be strong through 2007.

By the end of 2007, PERS was 112 percent 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* 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 and the impact of high earnings distribution. As reported in the agency's 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 134 that 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 are linked with employer rates, any change in PERS financial status always brings 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 January 1, 2003.

## **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." While PBGC spokesman Jeffrey Speicher downplayed this in the article, pointing out that most were still at least 80 percent funded, pensions were 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

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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 Local 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 the plan had hit record shortfalls.

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

## 2003 Reform legislation

The following bills were part of PERS Reform:

### *House Bill 2001*

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

### *House Bill 2003*

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

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

### *House Bill 2004*

PERS must use new actuarial equivalency factor tables beginning July 1, 2003.

### *House Bill 2020*

Established a successor retirement plan, the Oregon Public Service Retirement Plan (OPSRP).

## Public employee challenges to reform legislation

Challenges to reform legislation were immediate. They were consolidated into a 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 PERS Reform, PERS employers took legal action against PERS, requesting 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 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 percent instead of 20 percent, 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, 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.

## **Strunk and Eugene Project**

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, more than double what the previous record had been for an entire 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. The newspapers ran frequent articles fueling this with stories of teachers who weren't ready to retire and regretted leaving their positions but fearing that if they didn't, they would lose huge chunks of their retirement benefits.

## **PERS staff expands to meet demands of retirement spikes and PERS reform**

Combined with lawsuits, the creation of a new computer system, and instituting a new plan, PERS was non-stop 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 were devoted to creating the new plan, new computer system, and meeting the needs of members who wanted to retire, for the next several years, staff could barely keep up with all the changes and challenges.

## **Technology**

PERS' efforts 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 voting only \$1 to fund the new system. Consequently, 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 Oregon Retirement Information Online Network (ORION), a new system expected to be completed in 2010.

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 communication

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effort with employers that included employer education workshops and seminars, a new website specifically for employers, e-mail communications, and other outreach efforts.

## Communications

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 new call center, complete with a new phone system, to respond to member inquiries;
- used video conferencing; and
- revamped its website to keep members informed of any changes to the system.

Additionally, during retirement spikes the agency also held Turn-In-Forms Sessions during evening hours in which staff helped ensure retirement forms were filled out correctly.

By 2007, retirement counselors also began holding Retirement Application Assistance Sessions in which members within one year of retirement could meet one-on-one with a retirement counselor to ensure retirement applications were filled out correctly.

## Oregon Savings Growth Plan

OSGP, an optional deferred comp plan for all state and some local governments, benefitted from stock market increases during these 10 years. As of June 30, 1997, the fair value of investments was \$388.7. As of June 30, 2007, the fair value of investments was \$910.9.

## Plan changes

### HB 2020: The Oregon Public Service Retirement Plan (OPSRP)

OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution).

Beginning January 1, 2004, member contributions (including Tier One and Tier Two contributions) were placed in the Individual Account Program (IAP). 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 percent) and Tier Two accounts would continue to be credited with earnings or losses.

### Pension Program

This portion of OPSRP would provide a life pension funded by employer contributions.

Depending on whether a member is a general service or police and fire member, benefits would be calculated with specific formulas for members who attain normal retirement age.

### Individual Account Program (IAP)

OPSRP, Tier One, and Tier Two members contribute 6 percent of salary to the IAP, and employers may agree to pay the 6 percent contribution.

Accounts are credited with earnings or losses annually. Administrative costs of the plan are charged to these accounts.

## Board changes

The Board composition changed twice during PERS' sixth decade. It was increased to 12 members in 2001, then reduced to five members in 2003.

## Executive director changes

**Fred McDonnal** retired in December 1999.

**David Bailey** served as interim executive director from December 1999 through February 2000.

**James Voytko** served as executive director from February 2000 through October 2003.

**Laurie Warner** served as interim director from November 2003 through June 1, 2004.

**Paul Cleary** was named executive director June 2004.

## New mission statement

The new PERS Board created the following new mission statement during its first year (2003):

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.

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## Appendix A: A brief history of PERS leadership

### Executive Secretaries/Directors

Jerry S. Saylor (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-publication date)

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

### 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

## Appendix A: A brief history of PERS leadership (cont)

### Board members

#### *First board*

W.C. Schuppel  
Ralph A. Coan  
James M. Burgess  
I.A. DeFrance  
Frank L. Emery

#### *Other board members*

Joseph J. Adams  
C. Leonard Anderson  
Edwin H. Armstrong  
Frank B. Bennett  
Steven Bjerke  
Patricia Brown  
Christine Brown  
Gertrude Chamberlin  
Elaine Ciafarone  
Jan Clemmer  
James Dalton  
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  
Constance Jarvis

Wallace E. Johnson  
Russell Joki  
Chalmers L. Jones  
June S. Jones, Sr.  
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  
Eugene F. Schmidt  
J. Edward Schroeder  
Todd Schwartz  
Guy Shellenbarger  
W.P. Stalnaker  
Robert Straub  
Stephen M. Telfer  
Ralph Thom  
Lester Von Flue  
Gary Weeks  
Thomas E. Whelan  
C. Patricia Wickman  
R. Jon Yunker

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## Appendix B: Bios of Executive Secretaries/Directors

**Jerry Sayler** — Born in 1892 in Hopkins, Missouri, Jerry Sayler became PERS' first secretary. He helped draft the original legislation and served PERS from 1945-1950. He was the author of various musical compositions. He served as president of the Oregon Grange Fire Relief Association and was a member of a number of organizations.

**Ried Stone** — A native of Dunbarton, New Hampshire, Ried Stone became PERS' executive secretary in 1950. Prior to his employment with PERS he served as a Clackamas County auditor. He was active in community groups and served as president on the Clackamas County fair board. He served only a few months before his sudden death.

**Max Manchester** — Max Manchester took over the executive secretary position in 1951 and served PERS until 1970. He was president of the National Conference of State Retirement System Administrators and vice president of the National Conference of State Social Security Administrators. He was a life master and gold card holder of the American Bridge League and a recognized steward and judge of the American Horse Show Association.

**James L. McGoffin** — Educated in the state of Washington with a number of degrees, James McGoffin served PERS from 1970-1984. Prior to PERS he was assistant director to the Washington State Public Employees Retirement System. He was a member of the Municipal Finance Officers Association Retirement Committee and the National Council on Teacher Retirement's Legislative Committee.

**Kenneth Maul** — Kenneth Maul began his public service career as a forest firefighter with the California Division of Forestry. He went on to work for the city and county of San Francisco, both in the Planning Department and the Retirement System. He managed the Oakland Municipal Employees and the Police and Fire Retirement System. He served as an interim director at PERS from 1984-1985.

**Patricia F. Wiegert** — After beginning her retirement career as third in command of Wisconsin's retirement system, Patricia Wiegert served as director for PERS from 1985-1988. She was one of only three women in the nation to head a state retirement system at that time.

**Sheryl Wilson** — Sheryl Wilson joined PERS after working for the retirement system in the state of Washington for over two decades. She filled the director position from 1989-1992, resigning from PERS to become the director of the Washington Department of Retirement Systems (DRS). Her position with DRS made her a member of the governor's cabinet and a voting member of the state investment board. She was president of the National Preretirement Education Association and is still active in several national organizations.

**Fred J. McDonnal** — Fred McDonnal served as the executive director of PERS from 1993-1999. He served as deputy director from 1989 to 1993. He was also a member of the Oregon Investment Council. He earned a Bachelor of Science degree in business administration from Oregon State University. He held a number of positions in professional groups and was on the legislative committees of the National Council on Teacher Retirement Systems and the National Association of State Retirement Administrators. He resigned in 1999.

**David Bailey** — David Bailey joined PERS in 1988 as communications officer and administrator of the Agency Services Division. He became deputy director in 1993 and served as the interim director from December 1999 through February 2000. After leaving PERS, he became the director of the San Mateo County Employees' Retirement System.

## Appendix B: Bios of Executive Secretaries/Directors (cont)

**James Voytko** — Coming from the private sector, James Voytko became PERS' executive director in February 2000. He also served as director of research for Paine Webber, chief information officer and managing director of PNC Asset Management Group/PNC Advisors, and the deputy director and chief operating officer of PaineWebber's Investment Banking Division. He earned his bachelor's degree from Carnegie Mellon University, a Master of Public Administration degree from University of Washington, and an M.P.P. from Harvard University. He joined R.V. Kuhns & Associates, Inc. in 2004.

**Laurie Warner** — Laurie Warner began working in state government in 1988 when she was hired as assistant director of the Federal Child Nutrition Programs with the Department of Education. In 1991 she was hired as a budget analyst in the Department of Administrative Services (DAS) and was later promoted to budget section manager. In 1999 she left DAS to become deputy director of the Oregon State Parks and Recreation Department, where she later served as acting director. Warner returned to DAS in July 2001 to serve first as the Internal Audits manager and then the Facilities Division administrator. In October 2003 she was asked to serve as the acting director for PERS as it went through Board and program changes required by 2003 legislation. In June 2004, Warner returned to DAS. She became director of the Employment Department in 2006 and became a PERS Board member in 2010.

**Paul Cleary** — Paul Cleary assumed the role of PERS' executive director in June 2004. Before coming to PERS, Paul was the director of the Oregon Water Resources Department. He has also served as director of the Oregon Division of State Lands, deputy director of the Wyoming State Land and Farm Loan Office, and as a natural resource advisor in the Wyoming Governor's Office. He holds a bachelor's degree in biology from Trinity College and a master's in water resources from the University of Wyoming.

## Appendix C: A brief history of PERS firsts

First PERS number, 0001, was assigned to Jerry Sayler. Sayler 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 1945-1955.

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 Governor 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.

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## Appendix C: A brief history of PERS firsts (cont.)

First pre-retirement meeting began in 1969.

PERS' first stock investment was in 1969.

First issue of *Perspectives*, member newsletter, was published in 1970.

The 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.

The 1997 Oregon Legislature added two trusts for PERS to administer, the deferred compensation trust and the Benefit Equalization Fund.

## Appendix D: A brief history of PERS investments

From PERS' inception in 1947 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 percent. 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. 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 and, to the consternation of bankers, he pulled over \$60 million out of demand deposits and poured it into interest-bearing investments.

What Straub wanted most, however, was the ability to invest in common stocks. He asked the legislature to grant him that authority in 1965 and was quickly turned down. A year later, the Oregon State Employees Association paid \$1,000 for PERS employee Jerry Liebertz to travel back east 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 OSEA 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 percent 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 (OIC) to supervise the investment of all state of Oregon funds. According to a report Straub sent to Governor 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 Robert W. 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 Governor 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

## **Appendix D: A brief history of PERS investments (cont)**

was indeed unconstitutional since Oregon law prevents the state from ownership in private business. This ruling effectively ruined the whole program. But upon appeal to the Oregon Supreme Court, 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 belonged instead to the public employees. A month later, Straub mailed out questionnaires to over 50 qualified firms and met with nine of the most qualified candidates to choose money managers. After thorough review of each firm, he selected Fayez Sarofim & Co., Capital Guardian Trust Co., and Transamerican 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 70s when the stock market did not do well, the stock investments have performed exceedingly well and the PERS fund has grown considerably.

In the late 80's the OIC board changed to a six-member board. Since that time it has 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.

Currently, the OIC has 24 stock managers, covering both international and domestic stocks.

## **Appendix E: A 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 which 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 the mid-60s, the health care 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 70s, PERS added a Medicare supplement plan.

From its inception until July 1988, PERS 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 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 utilization review program at this time, meeting the statutory requirements of offering 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 and is funded by an assessment against the state of Oregon only. A dental plan added in 1992 offered very reasonable rates, but steep rate increases were necessary for the first two renewals. Kaiser Dental was added as an option for 1993.

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

The health care program at PERS is staffed by one employee, the Health Insurance Manager, who oversees the needs of 40,000 health-plan members. The manager also directs an administrative services contractor who provides member services and counseling.

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## Appendix F: A brief history of PERS communications

From the onset, communicating with its members was a PERS priority. However, making copies was tedious 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 was tightly connected to PERS and published frequent articles about the retirement system. PERS administrators frequently contributed articles about retirement issues, and in the 60s 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.

## Appendix G: A 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. Significant legislation to date includes:

1945

The Public Employees Retirement System signed into law and begins business July 1, 1946, as a money match retirement plan.

1947

Six-month waiting period begins.

1953

In April, PERS closes for one day to allow employees to go under Social Security. Employees were allowed to either take a refund or to keep their money in PERS when it was reinstated the following day.

## **Appendix G: A brief history of significant legislation (cont.)**

1967

Legislature passes a bill that allows PERS to invest up to 10 percent 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).

1969

Participation in variable account program begins.

1973

Fifty percent of unused sick leave allowed to increase benefits.

1979

Employer pick up of six percent employee contributions begins.

1981

Full formula calculation begins.

Persons hired after 1981 not eligible for pension plus annuity. (See 1967 legislation.)

1985

Employees can take a lump-sum payment of their member account in up to five annual installments.

1987

Ten-year members allowed to purchase six-month waiting period. PERS board increased to nine members.

New retirement benefit payout options added.

1991

State begins taxing PERS benefits.

Benefits increased one to four percent, depending on service, to help offset state taxation.

PERS becomes administrator of state employee Deferred Compensation Program.

1993

An award made to an alternate payee by the court because of divorce or separation can be transferred to a separate account in the name of the payee.

1995

PERS board adds two members from the private sector, increasing the board from nine to 11 members.

Benefit increase of 9.89 percent to remedy state taxation of PERS benefits.

Second tier of benefits established.

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## Appendix G: A brief history of significant legislation (cont.)

1997

Married members must provide proof of spousal consent on any benefit option selected by member.

Reemployed service retirees allowed to work up to 1040 hours (repeals 600-hour limit).

Deferred Compensation becomes a trust and is opened to local government.

New purchases enacted allowing purchase of out-of-state teaching service and military service performed prior to employment with PERS employer.

2003

The Oregon Public Service Retirement Plan was established by the legislature on August 29, 2003. PERS, the agency, administers OPSRP.

## Appendix H: A brief history of court cases

1968

The circuit court rules that 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 comes about as a result of federal court decisions based on alleged sex discrimination.

1989

The U.S. Supreme Court rules in Davis vs. 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 U.S. Oregon Supreme Court rules taxing of PERS benefits a breach of contract (Hughes vs. 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 HB3349 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 vs. State of Oregon).

## **Appendix H: A brief history of court cases (cont.)**

2001

City of Eugene vs. PERS case. Several employers and members sued to challenge PERS policies on actuarial factors, variable match, and earnings crediting. Marion County Circuit Court Judge Paul Lipscomb remanded the PERS Board's orders allocating 1999 earnings and setting employer rates for the petitioning employers. The Board was directed to reissue these orders in light of the judge's final 2003 ruling on many PERS practices, such as actuarial factors, variable account calculations, and reserving.

The Oregon Supreme Court issued its decision in the City of Eugene vs. PERS case August 11, 2005. The Court ruled 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 entered into the Settlement Agreement.

The Settlement Agreement requires PERS to reallocate 1999 earnings to Tier One benefit recipient accounts at 11.33 percent instead of 20 percent.

2003

Challenges to reform legislation immediately followed the signing of HB 2020. They were consolidated into a case commonly referred to as the Strunk case, which reached the Oregon Supreme Court.

2005

The Oregon Supreme Court ruled that the cost-of-living-adjustment (COLA) freeze enacted by the 2003 legislature to recover overpayments from earnings crediting in 1999 was invalid. The court also determined that PERS must annually credit the assumed rate, currently 8 percent, to Tier One member regular accounts. PERS credited 0 (zero) percent to Tier One regular accounts in 2003 based on legislation passed that year.

2007

Multnomah County Circuit Court Judge Kantor issued an opinion and order in the Arken and Robinson cases on May 24, 2008. These cases challenge PERS' actions to collect the overpayments that resulted from erroneously crediting 20% earnings to Tier One member regular accounts in 1999.

Judge Kantor left untouched his prior ruling in the Robinson case that PERS' only option is to treat overpayments as administrative expenses. Judge Kantor also ruled that the Arken plaintiffs can "seek the same relief sought by the Robinson petitioners."

2009

White case. Judge Kantor ruled 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. This case is with Oregon Court of Appeals.

2010

Oregon Court of Appeals heard arguments in the Arken and Robinson cases on September 2, 2010.

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## Appendix I: A brief history of PERS addresses

### Headquarters addresses

**1945**

426 Park Building  
Portland, OR

**1946**

Governor's Building  
Portland, OR

**1951**

State Office Building  
1400 SW Fifth Avenue  
Portland, OR

**1975**

SW Yamhill  
Portland, OR

**1979**

1099 SW Columbia Street  
Portland, OR

**1984**

200 Market Street, Third floor  
Portland, OR

**1987**

200 Market Street, Seventh Floor  
Portland, OR

**1997**

11410 SW 68th Parkway  
Tigard, OR 97223-8680

### Salem addresses

**1991**

200 Market St.  
Salem, OR

**1993**

Oregon Tower Building  
700 Pringle Parkway SE, Suite 601  
Salem OR

**1994**

800 Sumner Street NE  
Salem, OR

### Eugene addresses

**1987**

1244 Walnut Street  
Eugene, OR

**1995**

895 Country Club Rd., Suite B 100  
Eugene, OR

### Satellite addresses

PERS has had a number of satellite offices throughout its history. The very early satellite offices actually had no numerical addresses since early counselors worked out of the trunks of their cars. Offices have been located in La Grande, Pendleton, Eugene, Salem, and Tigard.



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