

CAN PERS BE SELF-SUSTAINING?

--NOT WITHOUT AN 8% ANNUAL INVESTMENT RETURN --

Currently, to fund a 59 year old PERS member for a “joint & survivor” retirement annuity paying \$53,000 in first year retirement annuity (with a 2% Cost Of Living Allowance thereafter), the Oregon’s Public Employees Retirement System (PERS) would charge approximately \$552,000. The cost for a 2% COLA is generally 20% of the cost of the entire annuity.

A comparable benefit from a private annuity company for such a joint & survivor annuity (both annuitant and spouse, age 59) would cost \$893,180 (without the 2% COLA). (Source: Berkshire-Hathaway Age 59 Jt Spouses \$4417 Mo Benefit.)

To calculate the cost of an annuity contract’s annual benefit, the annuity’s provider must make certain assumptions as to what rate of return the lump sum will earn during the life of the annuity (the lifespan of the annuitant/retiree). For PERS to provide a \$53,000 beginning annual benefit at a cost of only \$552,000 requires an assumption that the PERS investment fund will generate an 8% annual rate of return. The Berkshire-Hathaway Group’s annuity, quoted above, assumes a yield for the private sector, open market annuity of only 4.54%.

Here’s a question. Assuming for the sake of argument that the private sector annuity companies use 5% per year for anticipated investment returns (and not the 8% used by Oregon PERS and many other public retirement plans for their public employees), how long will a \$552,000 annuity corpus last before it is entirely consumed by annual payments? The answer.....12 years!

The following table shows the annual worth of an annuity with an initial value of \$552,000, which is increased by a 5% average annual investment yield, and decreased by the amount of each year’s retirement benefit paid to the retiree. (See footnote 1). Since the annuity’s initial value was underestimated, the total value of the annuity is consumed after only 12 years.

Year	1.	\$579,600 minus \$53,000 = \$526,600 (each year’s balance, times 1.05%)
	2.	\$552,930 minus \$54,060 = \$498,870
	3.	\$523,814 minus \$55,141 = \$468,673
	4.	\$492,106 minus \$56,244 = \$435,862
	5.	\$457,655 minus \$57,369 = \$400,286
	6.	\$420,301 minus \$58,516 = \$361,785

7. \$379,874 minus \$59,686 = \$320,188
8. \$320,188 minus \$60,880 = \$259,308
9. \$272,273 minus \$62,097 = \$210,176
10. \$220,685 minus \$63,339 = \$157,346
11. \$165,213 minus \$64,606 = \$100,607
12. \$105,637 minus \$65,898 = \$ 39,739

In sum, assuming a 5% annual rate of return on PERS investments, after the 12th year of PERS retirement annuity payments, the annuity's value is consumed and all future payments for the remainder of the retiree's lifetime will be subsidized by PERS employers (i.e., Oregon Taxpayers).

Thus, with an average retirement age of 59, the retiree's PERS account allocation will be consumed at age 71, assuming a Discount Rate of 5.0%. Since PERS mortality tables indicate an average male PERS member retiring at age 59 will live to age 80, and the average PERS female retiring at age 59 will live to age 85, after each reaches 71 year old, Oregon taxpayers will subsidize from the PERS fund, male retirees for their nine remaining years and female retirees for their 14 remaining years—and each year's benefits increase by the 2% cost of living allowance (COLA).

The cost of the retirement subsidy for a 59 year old retiree having an initial annual benefit of \$53,000 totals \$655,665 for the male retiree and \$1,073,702 for the female retiree.

In the above example, why do PERS administrators calculate PERS retirement annuities at \$552,000 while the same annuity in the private sector would cost approximately \$893,180 (without the 2% COLA). The Oregon Legislature has guaranteed the annual Discount Rate for most PERS employee members will be 8%. Since "Tier 1" PERS employees are guaranteed an annual payment into their PERS accounts of no less than the assumed rate (8%), if actual PERS fund investments generate less than 8%, PERS employers (taxpayers) are required to make up the difference. More recently hired PERS employees (Tier 2 and Tier 3 (OPSRP)) members, do not receive the same 8% per year guaranteed rate of return on their PERS member account balances. Nevertheless, since most PERS retirees were Tier 1, and since the largest group of current PERS employee-members is in Tier 1, the skyrocketing costs to PERS employers and taxpayers must be anticipated, budgeted and paid for decades to come.

To gain perspective of the magnitude of such expenses, assuming each of the 105,000 PERS retirees receives an average of \$37,500 year, the cost for one year's payments is \$3,937,500,000. This is Three Billion Nine Hundred Thirty-Seven Million Five Hundred Thousand dollars that will need to be funded each year for 12 years, plus a 2% annual COLA.

Assuming PERS investments will not generate in the future an annual yield of 8%, where will more the \$4+ Billion come from each year? Part will come from federal funds, but the vast majority must come from education and social program budgets, from increased taxation, and eventually from the sale of Oregon forests and other state assets. The

Oregon Supreme Court has ruled that, in Oregon, state employees have a vested right to all employee retirement benefits they have been promised, and, unlike private corporations subject to ERISA law, there cannot be a lessening of those retirement benefits, so long as the state employee remains employed.

Such extremely high PERS costs may result in the bankruptcy of some school districts, water districts, cities and even counties, but there is no legal provision for a state to go bankrupt. Thus, for Oregon, when OPERF investments revenues and cuts in other program allocations are not enough, Oregon is destined to sell state forests and other assets, increase state debt and/or increase taxation.

In short, for PERS to remain solvent, it must, eventually, resort to on-going borrowing and increased taxation to make the payments resulting from overly optimistic annuity calculations. PERS is a great deal for the retirees, but a tragic swindle for Oregon taxpayers.

Note 1:

Chart of average annual annuity payments when the first year's payment is \$53,000 and the annual increase is enhanced by a 2% Cost Of Living Allocation (COLA):

1. \$53,000
2. 54,060
3. 55,141
4. 56,244
5. 57,369
6. 58,516
7. 59,686
8. 60,880
9. 62,097
10. 63,339
11. 64,606
12. 65,898
13. 67,216
14. 68,560
15. 69,931
16. 71,330
17. 72,756
18. 74,212
19. 75,696
20. 77,210
21. 78,754
22. 80,329
23. 81,936
24. 83,575
25. 85,246
26. 86,951