

Solutions that would affect Current PERS Retirees (past PERs employees)

1. Stop paying the 9.8% “bonus benefits” to PERS Retirees who moved to Washington to avoid paying Oregon Income taxes.

From 1945 to 1991, PERS retirees were exempt from Oregon income taxes. After a conflict developed between PERS beneficiaries (who were income tax exempt) and federal pension holders (who were liable for Oregon income taxes), a U. S. Supreme Court ruling on a Michigan case made it clear that the same state income tax laws must apply equally to both federal and state retirees. Thus, the State was required to either allow both PERS retirees and federal retirees to be income tax exempt, or continue to tax both, but compensate the PERS retirees for the State’s breach of the “tax exemption” provision of the PERS retirement contract the State had with its employees.

For tax revenue purposes, the Legislature chose continue taxing both state and federal pensions and gave eligible PERS retirees (those hired before benefits became taxable) an increase in benefits of up to 9.8% (depending on the ratio of the employee's service prior to 1991) to cover the costs of state income taxation of PERS benefits.

In order to keep the 9.8% benefit increase as a windfall and avoid paying Oregon income taxes, many PERS retirees have moved to Vancouver, Washington and other states where their PERS benefits are totally exempt from income taxation.

Since the additional 9.8% benefit increase was specifically intended to reimburse PERS retirees for the costs of Oregon personal income taxes, to avoid giving the non-income-tax-paying PERS retirees the unearned extra benefits, **the Legislature could consider a bill that restricts the 9.8% benefit increase to PERS retirees who pay Oregon income taxes or at least live in Oregon and file an Oregon income tax return.** The savings to PERS by recapturing the PERS Income Tax Windfall Benefit would range from \$10 - \$30 million per year.