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Fitch: Oregon Pension Fund Will Manage Court Decision.

Fitch Ratings-New York-06 May 2015: Last week's Oregon Supreme Court decision to restore a 2% cost-of-living-adjustment (COLA) to approximately 120,000 state retirees and employees who were members prior to the 2013 law change is expected to lower the state's Public Employees Retirement System (PERS) funded ratio and raise ongoing required contributions, according to Fitch. The state estimates its portion of PERS's liability to be funded at 97% before the court's decision. The court ruled that it was legal to reduce COLAs for services accrued after the 2013 reforms as they were not contractually guaranteed. This decision contrasts with other rulings across the country where COLA changes have been upheld by courts under the principle that COLAs differ from core retirement benefits.

In our view, Oregon will be able to manage the immediate impact of the court's restoration of the COLA as it has reserve funds available for retroactive payments and other sources of flexibility. Before the Supreme Court's decision, PERS had projected plan savings over time of approximately \$5 billion from this and other pension reform efforts; a share of these savings is expected to remain in place as the court upheld other parts of the legislation. Funded ratios have also been bolstered in recent years by strong investment results and Fitch expects the state's portion to remain well-funded, albeit at a lower level, than it was before the court decision.

The total impact of retroactive payments due to the employees and retirees from this ruling will be calculated over the next few weeks. The state has two potential sources for funding these payments. There are approximately \$600 million in PERS's contingency funds which could offset retroactive payments. And, the state could redirect a portion of a likely personal income tax credit from the current biennium. The state's most recent quarterly report (March 2015) forecast personal income tax as growing by 14.8% in the current biennium with general fund revenues exceeding the kicker threshold by \$59 million. This would lead to an income tax credit to be issued to taxpayers in the 2016 tax year of approximately \$349 million.

PERS contribution rates for the next biennium (July 1, 2015 through June 30, 2017) have already been set by the pension system, but could be adjusted, subject to applicable rate collars. Any adjustment would have a financial impact on the budget currently being debated in the legislature. Contribution rates for subsequent biennia will include the required COLAs.

Contact:

Marcy Block
Senior Director
U.S. Public Finance
+1 212 908-0239
33 Whitehall Street
New York, NY

Douglas Offerman
Senior Director

U.S. Public Finance
+1 212 908-0889

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com.

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