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.

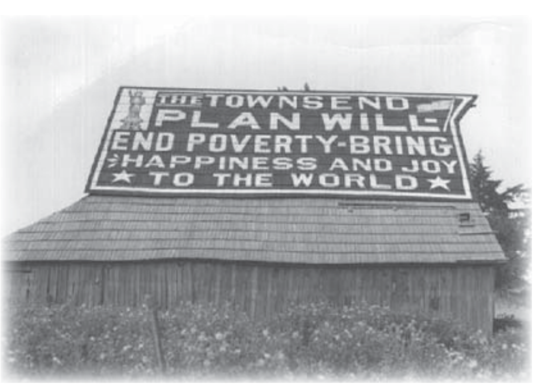
As villages and small cities crept across the Oregon landscape, opportunities for businesses lured young men and women away from traditional homesteads. Dependant on wages rather than on self-sufficiency, the economic security of many Oregonians could now be threatened by recessions, layoffs, injuries, 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 then 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 August1935.

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 serous importance to thousand 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.

Early Oregon firemen.

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.

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 Kehrli, 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, country, 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. Kehrli, 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 Kehrli and administrators of retirement plans in states across the country. Insurance companies were solicited for actuarial estimates, and figures and charts piled up in Kehrli'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 if 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 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, nor 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' 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."

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 Affaires 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.

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 Fayez 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."

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.

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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