



PUTTING STATE PENSION COSTS IN CONTEXT: OREGON

2015 Normal Cost of Oregon Public Employee Pensions:	\$1,126,300,000
2015 Cost of Oregon Subsidies and Corporate Tax Breaks:	\$680,439,696
Percentage of Pension Costs to Subsidy Costs:	165.5%

The Oregon Legislative Assembly continues to debate solutions to its pension system’s \$22 billion unfunded liability, a liability largely stemming from investment losses during the recession. A controversial 2013 reform effort was largely overturned by the state’s Supreme Court, and CEOs of the state’s biggest and most profitable corporations have called for cutting benefits.

While many pension numbers are circulated in public discussion, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Oregon the main pension plan administered by the state is the Oregon Public Employees’ Retirement System (OPERS). The most recent financial reports indicate annual employer normal costs of \$1,126,300,000 for OPERS.¹

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision, this approach does provide an important perspective on public sector pensions.

Oregon’s largest subsidy program is the Strategic Investment Program, which cost the state \$260.3 million in 2016.² Property tax cuts under the Enterprise Zone program cost \$25.6 million last year, while the Rural Enterprise Zone cost \$20.1 million more. The Oregon Investment

Advantage Program cost \$2 million in 2016. Renewable Resource Equipment Manufacturing Facilities tax credits cost \$12.6 million.

The state provides other lucrative tax breaks for business. The research & development tax credit cost \$14.3 million in 2016, while another tax credit for Qualified Research Activities cost \$7.8 million more. Preferential tax treatment of certain pass-through businesses resulted in 2016 revenue losses to the state of \$102.5 million.

Since 2005, Oregon has allowed most multi-state corporations to apportion their Oregon taxable income based solely on their sales within the state. The state provides no estimate of the cost to the state of this tax break.

Yet another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In November 2016, the U.S. PIRG Education Fund published a report in which it calculated the impact of this practice on each state. For Oregon, the estimated cost is \$235 million.³ In 2014 Oregon became the second state to require businesses to [report income from a select group of tax haven countries](#) as income on their Oregon tax returns. The Oregon Legislative Revenue Office estimated that the legislation would increase tax revenues by \$42 million over the two-year period 2015-17.⁴

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to nearly \$680 million per year, as summarized in the following table.

Strategic Investment Program	\$260,250,000
Tax Rates for Certain Pass-Through Businesses	\$102,500,000
Enterprise Zones (including Electronic Communications EZ)	\$25,900,000
Rural Enterprise Zones	\$20,050,000
Research & Development Tax Credits	\$14,300,000
Renewable Resource Equipment Manufacturing Facilities	\$12,600,000
Qualified Research Activities	\$7,750,000
Oregon Investment Advantage	\$2,000,000
Single Sales Factor apportionment	unknown
Revenue loss from corporate use of offshore tax havens	\$235,089,696
TOTAL	\$680,439,696

In other words, the annual corporate subsidies provided by Oregon are sufficient to pay for about 61 percent of the taxpayer cost of funding the retirement benefits of current Oregon public employees belonging to the main state administered public pension plan.

NOTES

¹ Derived by subtracting the member contribution figure found on page 40 of the 2015 OPERS CAFR at <https://www.opers.org/pubs-archive/financial/cafr/2015%20CAFR%20lowres.pdf> from the total normal cost figure found on page 11 of the 2015 OPERS Valuation Report at https://www.oregon.gov/pers/docs/actuarial_valuation-12-31-15.pdf.

² All subsidy number in this and following paragraphs come from Oregon's biennial tax expenditure report found here: https://www.oregon.gov/DOR/programs/gov-research/Documents/full-tax-expenditure_2015-17.pdf Oregon reports two-year numbers, so this report divides the numbers reported for the 2015-2017 period in half.

³ U.S. PIRG Education Fund, *Picking Up the Tab: Small Businesses Bear the Burden for Offshore Tax Havens*: (November 2016); <http://www.uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>

⁴Revenue Measure Passed by 77th Legislature (Research Report #3-13) Oregon Legislative Revenue Office <https://www.oregonlegislature.gov/lro/Documents/RMP%202013%20FINAL.pdf> page15.

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