

Portland City Club
June 22, 2018

Thank you for the introduction, thanks to all of you for coming today and thanks to those of you listening in on Xray FM or watching on KGW.com.

Being state Treasurer comes with a set of challenges. First, people tend to assume I am either a tax collector or have a magic checkbook and a lot of money to hand out.

And second, another set of people tend to assume my speeches will be focused on economic modeling, price- to-earnings ratios and regression analyses.

Which may explain why I don't get invited to give a lot of speeches.

So ... let's talk about beer.

In Astoria, you can find amazing views, the Goonies house, a lot of sea lions and an outstanding downtown brewery known as Reach Break. The owners are Josh and Jared Allison, and they started making beer as a hobby 10 years ago. Today, they are small business owners and they put a lot of energy into making beer but also into attracting and keeping a good crew.

And while they have a good IPA, until recently they didn't have a retirement plan. That makes them like an estimated 60,000 other Oregon businesses, most of them small businesses.

Last year, that changed, when Reach Break became one of the first businesses to register employees for a new state-based program called OregonSaves.

Let me set the stage a bit on why this is so important and transformative for Oregon.

First, the problem statement: According to recent national research, 45% of working-age households in America have zero retirement savings. Zero. If that doesn't change, many people will either retire into poverty, or simply have no other choice than to keep working well into their golden years.

This is the definition of a crisis, and our federal government has done virtually nothing about it.

But in Oregon, we are aggressively addressing this crisis. In 2015 the Legislature created a retirement savings program and tasked the Oregon Treasury with standing it up and running it. Called OregonSaves, it is a public private partnership that, true to our pioneer roots in Oregon, became the nation's first state-based auto-IRA savings program when it launched late last year.

Today, I am pleased to report, that in addition to the employees at Reach Break, OregonSaves is already helping tens of thousands of Oregonians take control of their retirement savings, most of them have never saved before. Collectively, they've already set aside about \$4 million in just a few months. And more people sign up every week.

It proves we can be both practical in our solutions and how we get to them, and progressive and bold in our values and vision.

We are at a pivotal moment when it comes to Oregon's financial future. We know that Oregonians are working hard, but can they afford a place to live, and do they have enough set aside to respond to even a small financial emergency?

Our population is growing and aging, and the demands on government are climbing. We are hamstrung by budgetary decisions that were made long ago, and a range of ways inertia keeps us from doing things in new ways.

And adding to those challenges, decisions made far away from Oregon are straining existing state services and threatening to put families in financial peril.

We are facing challenges, and they are big ones.

But – and I think this is important -- we are also optimistic ... and a little stubborn. Oregon is a place of possibility and promise, as much today, as it always has been.

Those of you listening on the radio can't probably tell this from the sound of my voice, but I'm tall. More than six and a half feet. When I was an undergrad at Willamette University, the coaches took a look at my stature, and athletic prowess and put me ... on the rowing team.

That's the place for tall student athletes who are more student and less athlete.

But I mean to tell you, there is something exhilarating about cutting through the glass water of the Willamette River, first thing in the morning, picking up speed, with each member of the crew working in unison. Moving quickly, and efficiently.

Now contrast that to our current political and governing moment.

In politics and policy, it can seem like everybody is rowing in opposite directions if not whacking each other with their oars. And to take this analogy one step further, we have people standing on the shore watching the race, but they're no longer interested in being mere spectators.

They want to be in the boat, rowing.

That's a good thing. Generally speaking, more people rowing, so long as they're rowing together will help us make faster progress.

So we have two options. Those spectators can be left on the shore, forced to try to kick someone out so they can take the seat. Or we can find a way to bring them along, by building a bigger boat.

How does this translate to the work of governing? First, we have to recognize the turbulent and choppy waters we have to navigate.

It's easy to retreat into our corners and surround ourselves with those who look and sound like us, to fine tune our social media to hear only the voices that make us feel comfortable and right. Government can't solve all our problems, but it should function in a way that allows all citizens to feel heard and validated.

I think the better answer is a bigger boat.

So, how does any of this relate to the job of being the Treasurer of Oregon? Because providing core services to citizens can't happen without money, without sound financial management, and without a pragmatic plan for the future.

That's where we operate as your state Treasury.

We are the state's (and many local government's) bank and investment house. We safeguard public money and trust funds between when those funds are collected and when they are needed to pay bills. That means that, every day, we are invested for the long term financial success of the state, for local communities, and for all of you.

Every day, we are surrounded by risks and it is our job to navigate them. I'm pleased to report that we are performing strongly, and even expanding our ability to manage risk effectively.

Here's one example: We are putting the power of money to work for Oregon.

On any given day we invest between \$7 and \$10 billion of local government money. Those government partners don't have to choose us, but they do because of the low costs and performance we achieve on their behalf.

That translates to extra income that helps our state and local governments' budgets go further, and reduces the pressure on taxpayers.

What does that mean in dollars and cents? Based on the new, higher rate (2.25%) Treasury announced this week, our management will generate \$157.5 million **in the next year** in interest income on that \$7 billion in deposits.

That's a lot of teachers and police, paid for through sound Treasury management.

Now I want to give updates on three important developments at Treasury that might serve as conversation topics today:

- First, we are saving tens of millions of dollars in the management of PERS investments, by being smarter and more efficient while not sacrificing our strong return profile.

At Treasury, we don't decide the level of benefits that are paid. That's the Legislature.

Treasury does, however, invest the Oregon Public Employees Retirement Fund, which now stands at about \$77.5 billion. That's the fund that is invested to pay the contractual benefits of our state's retired teachers, nurses, and public safety officers.

Today at Treasury, we manage the fund for the best possible returns, and we have done quite well. The fund returned 15.4% last year.

And since inception, more than 73 cents of every dollar paid in PERS benefits has come from investment performance. In other words, if Treasury and the Investment Council takes its eye off the ball and our investments underperform, then the fund needs even more to come from

state and local budgets. So we are very conscious of our responsibility to the system, and every Oregonian has a stake in our success.

We also know that if we can find lower cost ways to invest and manage the Fund, it will mean even better results for Oregon.

Last year, building on years of groundwork by previous treasurers, I was able to convince the Legislature to allow us to expand our internal investment capacity.

As a result, we are shifting a substantial share of our investments into much lower-cost mandates. This year, we will save \$25 million as a result, and we are just getting started. Over time, these changes will reduce the fees we pay by millions more, and the savings will quickly add up to hundreds of millions.

This is a smart strategy, and it is paying off for every Oregonian.

- I'm also proud to announce that we just finished Oregon's first ever sale of sustainability bonds, which will help pay for affordable housing projects across the state. The success of the sale shows there is demand for state-backed bonds that help improve our communities and our environment.

How much demand? We received about three times as many orders as there was supply.

It took some additional work and creativity by our debt management team, but it paid off and it was a win for investors, a win for the State, and ultimately a win for families searching for affordable housing options.

- Finally, we are expanding Treasury's capacity to identify and manage risks in today's turbulent, global markets.

This month, we hired Oregon's first-ever Environmental, Social and Governance (ESG) Investment officer. Anna Totdahl, is with us today and we're excited she's already contributing to our team.

This new quantitative approach to risk management efforts allows us to look critically at whether companies are making decisions that will make them successful and profitable in the long run. After all, we invest for decades, and our portfolio relies on companies being successful years from now.

This new ESG investment risk and research capacity will provide more tools to strengthen our existing corporate governance program, which engages with companies and casts proxy votes at annual meetings in pursuit of stronger, more sustainable portfolio performance.

Money is vital to everything we do. So are people.

That means Treasury should not, and CAN NOT, simply limit itself to being the state's bank and investment shop.

Over the past two decades, Oregonians have increasingly turned to Treasury for the financial tools they need to care for their families and loved ones.

Programs like the Oregon College Savings Plan, Oregon ABLE, and now OregonSaves help Oregonians save for college, save for disability-related costs and save for retirement.

But simply offering these programs isn't enough. We also need more Oregonians to take that important first step and invest in themselves.

That's why Treasury is increasing efforts to connect these tools to families that need extra encouragement to save and prepare for the future. We've found that the usage among Oregon's rural, underrepresented, and more vulnerable populations is less than we'd like it to be. It's also in our communities of color, and for families whose parents didn't go to college.

And that means we need to ask some new questions:

- Who's not saving for college or retirement?
- What support do they need, and do we have the right incentives?
- Are we going to the places where we are likely to meet and talk with these families?

It is easy to get down about government these days, especially at the federal level, where it seems like there is way too much smacking of oars, and way too little rowing in the right direction.

But government, if you think about it, it us.

It's all of us.

Regardless of which political party we vote with, which religion we practice, or who we love. It's all of us, regardless if you have lots of zeroes in your bank accounts and stock portfolios, or zero.

Of course, for government to be about all of us, we need to make room for everybody. And in that regard, I believe we have missed the boat.

We have failed to do enough to make this small d democratic process welcoming to everybody, and in particular, to young people from every corner of Oregon. This is a generation that's more diverse, in demographics and in thought. Failure to make room for them is both a mistake and a missed opportunity.

In this era of revolutionary technology, we should be engaging more, listening more, and doing more.

Our elected leaders are getting older, and thus the debate too often is focused on what is good for the older generation. But young people have a lot to offer, and they have a lot to teach us. They are the ones who will decide, ultimately, where we are headed next

We need a bigger boat and we need to be asking different questions.

Let's ask our younger neighbors for ideas, and for help. Let's grab them a drink at Reach Break – if they're old enough.

With their voices alongside ours, let's continue to take smart risks, to be stubbornly optimistic, rigidly adaptable, and to provide the financial tools that will help Oregonians improve their qualities of life.

Our future depends on it.

Thanks for coming today. We can cover the economic modeling next time.