UNFUNDED ACTUARIAL LIABILITY RESOLUTION PROGRAM

Guide to Understanding Pooling

The School Districts Pool

The purpose of this guide, created as part of PERS' Unfunded Actuarial Liability (UAL) Resolution Program, is to help employers understand pooling and how it can affect their rates.

OREGON PERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

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Disclaimer

This guide is for employer educational purposes only and is not intended to provide legal or financial advice. If there is any conflict between this guide and federal law, Oregon law, or administrative rules, the laws and rules shall prevail.

In addition, as this guide aims to explain PERS employer rate information in as simple terms as possible, some actuarial information is simplified and may not apply to all situations or employers.

Assistance

If you have any questions or concerns about your specific scenario, email Actuarial.Services@pers.state.or.us.

About this guide

Terms that are cherry-red colored include a definition. Hover over a term with your cursor to see its definition pop up, or go to the glossary at the end of this guide for a more detailed definition.

Links to pages on the PERS website are included throughout to enable you to dive deeper into certain topics.

This guide is one of a series. To see the other guides, go to the Employer Rate Relief Programs section *of the PERS website.*

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Introduction

Rate unpredictability is a concern for many employers. It makes long-term budget planning more difficult and can cause financial challenges when unexpected **actuarial events** occur.

Creating an employer pool merges individual school district employers with other school district employers for the purpose of determining pension costs and contribution rates. Pooling stabilizes employer rates by spreading the cost of financial and demographic changes, such as a drop in fund earnings or payroll reductions, across multiple employers rather than assigning the entire cost to a single employer.

History of PERS employer pools

July 1, 1946	Legislation to enact PERS becomes effective, and Tier One is created.
1953	The PERS Board creates the School Districts Pool to stabilize contribution rates for Oregon schools (ORS 237.081).
1983	The PERS Judge Member Program is created per Oregon Revised Statute (ORS) 238.500 to 238.585. It is a separate program and pool.
1995	The PERS Board creates the Community College Pool to stabilize employer rates for community colleges (ORS 238.230 (formerly 237.017)).
January 1996	PERS opens the new Tier Two plan.
June 12, 2001	The PERS Board opens the new Local Government Rate Pool to help ease high employer rates among local government agencies.
August 9, 2001	The PERS Board creates the State and Community College Pool to add universities to the Community College Pool and stabilize contribution rates for all Oregon universities and colleges.
January 1, 2002	The PERS Board dissolves the Local Government Rate Pool and the State and Community Colleges Rate Pool and combines them into the new State and Local Government Rate Pool (SLGRP) and extends the opportunity for local governments to pool their rates with those of the state of Oregon.
2003	PERS opens the new Oregon Public Service Retirement Plan (OPSRP). All employers become members of the OPSRP pool to provide funding for the plan.

System-wide pools

All employers, regardless of payroll or type, are members of one or both of the following system-wide pools.

Oregon Public Service Retirement Plan (OPSRP) pool

All employers are assigned the same OPSRP General Service **normal cost** rates and Police & Fire normal cost rates, as well as the same OPSRP **unfunded actuarial liability (UAL) rate**.

Retiree Healthcare pool

On your valuation, you also have a Retiree Healthcare normal cost and Retiree Healthcare UAL rate. This rate applies to RHIA and RHIPA.

- **Retirement Health Insurance Account (RHIA)**

  All employers with Tier One/Tier Two payroll pay the same RHIA normal cost. Currently there is no RHIA UAL because the program is fully funded.

- **Retiree Health Insurance Premium Account (RHIPA)**

  RHIPA is paid only by state agencies and judiciary. The RHIPA normal cost is added to the RHIA normal cost and represented as the Retiree Healthcare normal cost. As of the 12/31/2020 valuation, RHIPA does not have a UAL.

Employer pools

According to Oregon state rules, chapter 459, employers are pooled as a single employer "only for the purposes of determining the amounts that are actuarially necessary to adequately fund the benefits provided by the contributions of PERS-participating employers." In no other way are pool members merged.

Employers in the pool jointly fund the future pension costs of all pool participants. Pool members also share a percentage of the pool's **liabilities** and pay them off as a group.

The School Districts Pool

The state's second-largest Tier One/Tier Two pool consists of all K–12 school districts in the state. Membership is mandatory.

What is pooled

All Tier One/Tier Two normal cost rates and UAL are pooled.

The State and Local Government Rate Pool

The state's largest employer pool consists of the following employers:

- The State of Oregon, excluding the **state judiciary**.
- All community colleges.
- Any participating employer (other than school districts) who elects to join the pool.

Membership is optional for new local governments. The SLGRP and School Districts Pool work in slightly different ways, so the SLGRP is covered in its own version of this document.

What is pooled

Only the **Tier One/Tier Two UAL** is pooled. All members have the same Tier One/Tier Two UAL rate, while a separate Tier One/Tier Two normal cost rate is calculated for each employer.

The Judiciary Pool

The smallest pool consists of members of the state judiciary. Membership is mandatory. The Judiciary Pool has a limited membership with unique rules; it is not covered in this guide. For information about the Judge Member program, read the PERS Judge Member's Handbook.

School Districts Pool (SDP) membership

Members

For the purposes of PERS, the School Districts Pool includes:

- Common school districts.
- Union high school districts.
- Education service districts.
- Chartered schools authorized under Oregon Law.

Any entity that meets one of the above definitions is automatically placed in the pool upon entering PERS.

SDP by the numbers

294
SDP members

Tier One/Tier Two

18,202	70,239	73%	225%	$1,250.4M
Active members	Retired members and beneficiaries	Funded status[1]	UAL as a percentage of payroll	Valuation payroll

OPSRP

54,307	2,284	75%	20%	$2,571.4M
Active members	Retired members and beneficiaries	Funded status[1,2]	UAL as a percentage of payroll	Valuation payroll[3]

1. Excluding side accounts
2. For the entire OPSRP pool, not just SDP's percentage of the OPSRP pool
3. To clarify, this is specific to the School Districts Pool, not the OPSRP pool

SDP and your rate

The School Districts Pool combines all participants' Tier One and Tier Two **assets** and liabilities for the purposes of determining Tier One/Tier Two contribution rates and the Tier One/Tier Two UAL for the School Districts Pool.

The UAL for the pool is allocated to each employer based on their combined valuation payroll.

All members of the School Districts Pool pay the same base Tier One/Tier Two contribution rate because rates are calculated at the pool level.

The only way to differentiate your rate from the pool's rate is to add a **side account**.

Rate	Calculation
Normal cost rate	SDP's normal cost (annual cost for the current year) ÷ SDP's combined valuation payroll
Tier One/Tier Two UAL rate	SDP's liabilities – SDP's assets = SDP's UAL Next year's School District UAL payment ÷ SDP's combined valuation payroll (includes OPSRP)

UAL allocation	Calculation
School District employers only see their UAL allocation if they are receiving an individual valuation after establishing a side account.	Based on the ratio of an employer's combined valuation payroll to the combined valuation payroll of the pool. Your portion of the UAL is allocated over 20 years.

SDP funded status

The School Districts Pool has the distinction of being the best funded Tier One/Tier Two pool! (As of the 2020 actuarial valuation.)

Currently, the School Districts Pool leads the PERS system with the most number of side accounts.

The School Districts Pool has 294 employers; 121 of those employers have a total of 169 side accounts.

	12/31/2020	12/31/2019	12/31/2018
School Districts Pool	72.6%	74.0%	69.7%
School Districts Pool with side accounts	80.5%	82.9%	78.8%
State and Local Government Pool	68.7%	71.1%	68.1%
State and Local Government Pool with side accounts	74.2%	77.2%	73.7%
Independent employers	68.2%	71.8%	69.4%
Independents with side accounts	69.9%	73.2%	70.6%

Combined side account offsets for the School Districts Pool							
Rate-offset range	Less than 5%	5–10%	10–15%	15–20%	20–25%	25–30%	Greater than 30%
Number of SDP employers	27	29	30	17	11	2	5

Glossary of actuarial terms

Actuarial event

An unexpected change that affects investments and pension programs. Actuaries use mathematics, statistics, and financial theory to predict possible future events, but surprises do happen.

Actuary

An actuary uses math, statistics, and financial theory to study uncertain future events, especially those of concern to insurance and pension programs.

Assets

The funds an agency uses to pay its future compensation obligations to retired employees, such as accounts, reserves, and investments.

Combined valuation payroll

This is projected payroll, as calculated by the PERS consulting actuary for the calendar year following the valuation date for Tier One, Tier Two, and OPSRP active members. This payroll is used to calculate UAL rates and is based on the actual payroll reported by the employer.

Funded status

Funded status is the actuarial value of assets expressed as a percentage of the accrued liability. In other words, how close an employer, pool, or the PERS system is to being able to pay all of the benefits it owes to past and current members.

Independent employer

Some local governments are valued independently of all other jurisdictions. Their Tier One/Tier Two rates are not pooled and are based on their individual experience.

Judiciary Pool

Members of the state judiciary are pooled together in the Judiciary Pool. (Refer to definition for state judiciary to learn more.)

Liabilities

The costs that an agency owes in order to provide PERS benefits for its retired employees, including PERS contributions, UAL rates, and lower-than-expected investment returns.

Local government

A city, county, municipal, or public corporation created by political subdivision(s) to provide themselves governmental service. Does not include a school district or a community college.

Normal cost

The normal cost is the value of benefits for an employer's current members for the next year of service. If all current actuarial assumptions were met, the normal cost would be the only rate an employer would pay. Your normal cost, divided by your applicable payroll, is your normal cost rate.

Pooling

The combining or grouping of public employers participating in PERS for the purposes of determining employer liability for retirement or other benefits under ORS Chapter 238 (Public Employees Retirement System).

Rate collar

Rate collar is a method of stabilizing employer contribution rates by preventing sudden rate spikes and drops. The current policy limits only the UAL rate. The collar width varies by pool. For details, read "Rate-Collar Methodology Updated" in the **August 2021 *Employer News***.

School district

A common school district, a union high school district, or an education service district, including chartered schools, authorized under Oregon law.

School Districts Pool

All K–12 school districts, charter schools, and education service districts are required to be a part of this single pool for purposes of actuarial modeling and payroll rate calculations by statute. All members of the School Districts Pool have the exact same Tier One/Tier Two normal cost rate and Tier One/Tier Two UAL rate regardless of actual payroll.

Side account

When an employer makes a lump-sum payment to prepay future employer contributions, the money is placed in a special account called a "side account." This account is attributed solely to the employer making the payment and is held separate from other employer reserves. The money is invested in the Oregon Public Employees Retirement Fund (OPERF) and is subject to earnings and losses. Learn more on the Employer Side Accounts webpage.

State and Local Government Rate Pool

All state agencies, community colleges, some local governments, and some special districts are members of the SLGRP. Members of this pool have the same **UAL rate** — their assets and liabilities are combined with other members of the pool. The amount of UAL on their valuation is their proportionate share of the pool's UAL based on their combined valuation payroll; it does not necessarily represent the individual employer's literal unfunded actuarial liability. About two-thirds of employers are members of the SLGRP.

State judiciary

The Oregon judiciary consists of a supreme court, a court of appeals, a circuit court, a tax court, and various trial courts of limited jurisdiction. Judges on any of these state courts are members of PERS. Their benefit structure is different than Tier One/Two and OPSRP.

Tier One/Tier Two UAL

The SDP pools all Tier One and Tier Two assets and liabilities, which include the UAL.

Transition unfunded actuarial liability or surplus

The unfunded actuarial liability or actuarial surplus attributed to an individual employer for the period of time the employer was not participating in a pool, before joining the Local Government Rate Pool or the State and Local Government Rate Pool.

Unfunded actuarial liabilities (UAL)

The excess of a fund's actuarial liabilities over the fair market actuarial value of its assets. A fund's UAL is paid off over time by all affected agencies.

UAL rate

A rate added to normal cost rate to pay off the unfunded actuarial liability (UAL) of a fund. The UAL for the pool is allocated to each employer based on their combined valuation payroll.

The UAL is not a stagnant amount, but changes based on a number of factors, such as:

- Changes in the assumed earnings rate.
- Prior biennia rate deferrals (i.e., rate collaring).
- Actual investment earnings or changes to asset values.
- Changes to other actuarial methods and assumptions.
- Prospective legislative changes to PERS benefits.

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