UNFUNDED ACTUARIAL LIABILITY RESOLUTION PROGRAM

Guide to Understanding Pooling

The State and Local Government Rate 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.

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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.oregon.gov.

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 occur.

Pooling allows individual employers to be grouped with other 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 rates and Police & Fire normal cost rates, as well as the same OPSRP .

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 and pay them off as a group.

The State and Local Government Rate Pool

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

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

Membership is optional for new local governments.

What is pooled

All normal cost rates and are pooled. A normal cost rate is determined at the pool level and then applied to each employer's payroll to determine a weighted normal cost rate. All pool members' normal cost rates are calculated using the same starting rates.

The School Districts Pool

The state's second-largest pool consists of all K–12 in the state. Membership is mandatory. The SLGRP and School Districts Pool work in slightly different ways, so the School Districts Pool is covered in its own version of this document.

What is pooled

All normal cost rates and UAL are pooled. All members have the same Tier One/Tier Two rates.

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.

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SLGRP membership

Members

The SLGRP includes:

- All state agencies except the state judiciary.
- All community colleges.
- All state universities.
- Any political subdivisions (i.e., local governments created by states to help the state fulfill its obligations, like fire departments or public utilities) that choose to join the pool.

SLGRP by the numbers

468
SLGRP employers

Tier One/Tier Two

23,191	90,963	69%	203%	$2,089.0M
Active members	Retired members and beneficiaries	Funded status[1]	UAL as a percentage of payroll	Valuation payroll

OPSRP

71,232	4,982	75%	20%	$5,045.3M
Active members	Retired members and beneficiaries	Funded status[1,2]	UAL as a percentage of payroll[2]	Valuation payroll

1. Excluding side accounts
2. For the entire OPSRP pool, not just SLGRP's percentage of the OPSRP pool

SLGRP and your rate

The advantages of joining a pool are improved rate stability and predictability, plus protection from rate increases caused by employer-specific events.

However, pooling provides no assurance of lower rates overall, and employers should *not* join a pool based solely on an expectation that it will lower their rates. Factors such as fluctuating investment earnings, legislation, and legal rulings affect rates for *all* employers, whether pooled or non-pooled.

Important: PERS can estimate the rate impact of joining the pool, but your actual rate impact won't be known until completion of the first rate-setting valuation after joining the pool, and could differ substantially from the estimate. For some employers, joining the pool will result in slightly lower rates, at least in the short term. However, it's also possible for an employer's rates to increase upon joining the pool.

How the pool stabilizes your rate

To illustrate how being in a pool stabilizes your rate, let's consider one employer : a disability retirement.

On average, fewer than 1 out of 1,000 members will become disabled in any particular year, and each employer's rate includes a percentage to pay for disabilities based on this expectation. If an employer with five employees has one become disabled, that employer has experienced a 1 out of 5 disability rate, not the 1 out of 1,000 for which it has been paying. This kind of experience creates a UAL, and the employer's rate must be increased, maybe dramatically, to pay for the higher-than-projected level of benefits its employee group will receive.

A pooled employer who experiences a disability retirement will share the costs of that experience with all the other members of the pool. It is much more likely that the pool will already be charging employers the proper amount for disability costs because predictions for large groups of employees tend to be more accurate than for small groups. Thus, the prediction for disabilities is likely to be accurate for a pool. In the pool, the five-member employer's disability case would have little or no effect on rates because it is blended with the entire pool's experience.

The fewer employees an employer has, the less likely it is that assumptions about demographic and financial experience will be accurate. In the Oregon PERS system, the majority of local governments have 10 or fewer employees. Because individual employers generally don't spread their pension costs over a large payroll base, employer rates can, and often do, swing dramatically from valuation to valuation because of demographic or financial changes that would be insignificant if spread over an entire actuarial pool.

About your UAL rate

The SLGRP combines all participants' Tier One and Tier Two assets and liabilities for the purposes of determining participants' Tier One/Tier Two UAL and the associated rate. The UAL for the pool is allocated to each employer based on their combined valuation payroll.

UAL	Calculation
SLGRP UAL amount	SLGRP's liabilities – SLGRP's assets
SLGRP Tier One/Tier Two UAL rate	Next year's SLGRP UAL payment ÷ SLGRP's combined valuation payroll (includes OPSRP)

UAL allocation	Calculation
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.	(Your combined valuation payroll ÷ the SLGRP's combined valuation payroll) x the pool's UAL For example: ($92M ÷ $7B) x $13B = $173M

About your transition liability/surplus rate

Determining transition liability or surplus

PERS takes care to ensure that existing pool members do not have to subsidize new employers who have a substantial UAL. We also don't want to force a new member who has a lower UAL to pay a larger UAL rate than they've incurred.

Therefore, unfunded actuarial liabilities or surpluses that existed prior to the employer's entry into the pool will remain the responsibility of the individual employer. They become what are called "transition liabilities" or "transition surpluses."

To calculate the for new pool members, the PERS actuary:

3. Compares the employer's UAL with its share of the pool's UAL.
4. If employer's UAL is larger, calculates a transition liability rate.
5. If pool's UAL is larger, calculates a transition surplus rate.

Paying the transition liability/surplus rate

The employer will be charged (if liability) or credited (if surplus) interest at the system's current assumed earnings rate.

The actuary develops an amortization schedule that will result in the elimination of the transition liability or surplus over the approved amortization period (i.e., the period of 20 years, as set by the PERS Board).

The pooled rate for each employer will be adjusted upward or downward as needed with each biennial rate change to meet the amortization schedule. This ensures that you receive full credit for your transition surplus, or pay off your transition liability, over the designated period.

Transition liability and surplus rates can go up or down, depending on changes in your payroll and changes in the assumed rate. You will receive a detailed reconciliation of your transition liability or surplus balance, including amortization and interest charged or credited, in your annual valuation report.

Paying off the transition liability early

Employers who have a transition liability may choose to pay off all or part of that liability through a lump-sum payment to PERS (a supplemental UAL payment). Reducing or eliminating the transition liability lowers your contribution rates going forward. OAR 459-009-0084 describes the lump-sum payment process.

About your weighted average normal cost

Normal cost represents the amount that employers would need to contribute each year to fund plan benefits if there were no UAL.

Weighted normal cost means your Tier One/Tier Two rate is calculated based on the SLGRP's normal costs for each tier and classification. These rates are applied to each of your applicable tiers and classifications to determine your specific normal costs.

Your total normal cost ÷ your Tier One/Tier Two payroll = weighted average normal cost rate.

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Development of Total Weighted Average Tier 1/Tier 2 Normal Cost Rate

	December 31, 2020			December 31, 2019		
	(A) SLGRP Normal Cost Rate	Employer Tier 1/Tier 2 Valuation Payroll	Normal Cost	SLGRP Normal Cost Rate	Employer Tier 1/Tier 2 Valuation Payroll	Normal Cost
Tier 1 General Service	18.14%	$345,164,268	$62,612,798	16.64%	$371,831,026	$61,872,683
Tier 2 General Service	13.87%	535,581,658	74,285,176	12.67%	535,701,188	67,873,341
Total General Service		**880,745,926**	**136,897,974**		**907,532,214**	**129,746,024**
Tier 1 Police & Fire	23.86%	49,351,821	11,775,344	21.76%	54,673,239	11,896,897
Tier 2 Police & Fire	21.58%	133,231,050	28,751,261	19.69%	132,555,682	26,100,214
Total Police & Fire		**182,582,871**	**40,526,605**		**187,228,921**	**37,997,111**
Total		**$1,063,328,797**	**$177,424,579** (B)		**$1,094,761,135**	**$167,743,135**
Total normal cost rate						
General Service			**15.54%**			**14.30%**
Police & Fire			**22.20%**			**20.29%**
Aggregate (Default)			**16.69%**			**15.32%**

A This is the normal cost rate applied to each tier and classification of your payroll. The development of this rate is included in the system-wide valuation.

If you only have one type of payroll, that payroll's rate will be your default normal cost. For instance, if this employer only had Tier Two Police & Fire, their normal cost rate would be 21.58%.

B The normal cost total amount divided by the total Tier One/Tier Two valuation payroll (underlined) determines your aggregate (default) normal cost rate. Employers without Tier One/Tier Two payroll receive the system-average SLGRP normal cost.

Accounting for employer differences

The SLGRP has several rates designed to introduce equity among its members. Applying these rates ensures that no member is unfairly subsidizing the UAL rates, payroll, or benefits of others or vice versa. Bringing employers into the pool at the same funding level as the pool ensures that the pool does not gain or lose by new employers joining the pool.

Sick leave benefits

All costs related to the use of accrued sick leave in the calculation of member benefits are shared by all participants in the pool, regardless of whether they provide this benefit to their employees or not. Spreading the cost of the unused sick leave benefit over the entire pool results in a very minimal rate impact, likely 0.10% of payroll or less.

Actuarial gains and losses

Actuarial gains and losses that arise after you enter the SLGRP are shared by all employers in the pool. These gains and losses are amortized over the Board-approved amortization period.

The pooled UAL component of each employer's rate will be adjusted up or down biennially as needed to keep the UAL amortizing on schedule. This methodology is the same as that used for a non-pooled employer. The only difference is that gains and losses in a pool are shared.

Employer reserve

Your employer reserve will continue to function as it did before you joined the pool. Earnings distributions, contributions, and retirement charges after the date you join the pool will continue to post to your employer reserve. When account balances are reported to the PERS actuary each year for use in the valuation, account balances for all pooled employers are combined for purposes of determining the pool's assets, but they continue to be tracked separately by PERS.

Getting your new rate

Important: Your employer rate does not change as soon as you join the pool. Your rate is not updated until the next rate update on July 1 of the next odd year.

Joining the SLGRP

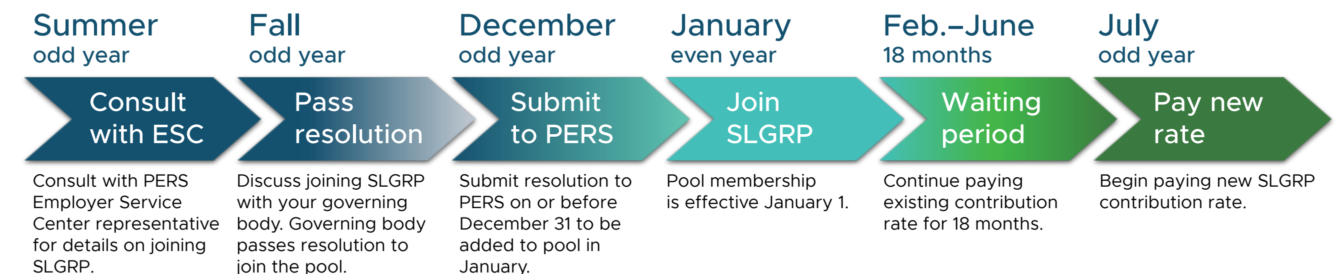
Who can join

State agencies, community colleges, and public institutions of higher education are required by law to be part of the SLGRP. Any local government employer who isn't already pooled may choose to join the SLGRP (except Oregon school districts, which are required by law to be part of the School District Pool).

Although joining the SLGRP is voluntary for local governments other than state agencies and community colleges, membership in the pool is permanent. Because the purpose of a pool is to promote rate stability, if employers were allowed to enter and leave at will, stability would be impossible to achieve.

How to join

Joining the SLGRP begins with your governing body passing a resolution to join the pool. The chart below illustrates the timeline so that you can factor it into your decision-making as well as your budget-planning.



Employers can only join the pool effective **January 1 of an even-numbered year**, so make sure you plan ahead to meet the December 31 deadline. The resolution process can take longer than you might think. If you are considering joining the SLGRP, contact your Employer Service Center representative and PERS Actuarial Services as soon as possible.

Example: To join the pool January 1, 2023, an employer's resolution must be delivered to PERS no later than 5:00 p.m. December 31, 2022.

SLGRP funded status

	12/31/2020	12/31/2019	12/31/2018
State and Local Government Rate Pool	68.7%	71.1%	68.7%
State and Local Government Rate Pool with side accounts*	71.1%	77.2%	71.1%
School Districts Pool	72.6%	74.0%	72.6%
School Districts Pool with side accounts	74.0%	82.9%	74.0%
	68.2%	71.8%	68.2%
Independents with side accounts	71.8%	73.2%	71.8%

Combined side account offsets for the State and Local Government Rate Pool					
Rate-offset range	Less than 1%	1–5%	5–10%	10–15%	Greater than 15%
Number of SLGRP employers	29	37	27	12	2

*The SLGRP has 107 side accounts.

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.

Actuarial surplus

The excess of the fair market actuarial value of assets over the actuarial liabilities.

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

Any city, county, municipal, or public corporation created by one or more political subdivisions 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 pension 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 SLGRP pools all Tier One and Tier Two assets and liabilities, which includes 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.

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Unfunded actuarial liabilities (UAL)

The excess of a fund's actuarial liabilities over the fair market actuarial value of its assets. The UAL is calculated into the UAL rate that employers pay.

UAL rate

A rate added to the normal cost rate to pay off a fund's UAL. UAL for the pool is allocated to each employer based on their combined valuation payroll.

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