

PERS Employer Outreach, Communication & Education

Welcome!

Employer Rates, UAL, Normal Cost,
Side Accounts, and where the money
goes.

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Why are employer rates necessary?

The Ch.238 Tier One/Tier Two and OPSRP Pension program are not “pay as you go” programs. Retirement benefits from either program are paid by the PERS trust, and PERS is tasked with maintaining the trust to support current and future retirement benefit demands. **Projections of future benefit costs rely upon assumptions about the makeup of past, present and future PERS and OPSRP membership (demographic assumptions), and assumptions about investment returns and other financial impacts to the PERS fund (economic assumptions).**

Demographic assumptions include:

- 1) Member mortality. Every two years, the PERS Board must adopt the actuarial equivalency factors used to calculate member benefits under various retirement options. By law, these factors must use the best actuarial information on mortality available at the time.
- 2) The number of service retirements.
- 3) The number of disability retirements.
- 4) The number of retirees choosing Total Lump Sum and Partial Lump Sum benefit payment options.
- 5) The number of Tier One/Tier Two members making service time purchases at retirement.
- 6) Salary increase assumptions, such as unused sick leave and lump-sum vacation payouts.
- 7) Probability that vested inactive members will elect to withdraw their accounts.
- 8) Participation in RHIA and RHIPa healthcare subsidies.

Economic assumptions include:

- 1) The rate of investment return adopted by the PERS Board.
- 2) The rate of increase or decrease of consumer price inflation.
- 3) The rate of future general wage inflation.
- 4) The rate of healthcare cost inflation.

Employer rates have two major components: Normal Cost (NC) and Unfunded Actuarial Liability (UAL).

What is...

Normal Cost (NC)

Normal cost is the projected cost of providing expected benefits for current employees, and is intended to make sure that money is available to cover retirement benefits well into the future. Projection of future benefits costs rely upon assumptions about the makeup of past, present, and future PERS and OPSRP membership, and assumptions about investment returns and other financial impacts to the PERS fund. Projections are just that...projections. The actual value of benefit calculation factors can be very different from the projections.

Unfunded Actuarial Liability (UAL)

Unfunded actuarial liability is the difference between the actual cost of pension benefits (liabilities) and assets (contributions plus investment earnings) at a particular point in time. The UAL rate is intended to make up, or “amortize”, that difference over a set period of time, currently 20 years for Ch. 238 Tier One/Tier Two and 16 years for OPSRP. A negative UAL rate means an employer has a surplus; assets are greater than liabilities. A positive UAL rate means liabilities are greater than assets.

Side Account

A “side account” represents a supplemental lump-sum payment made by an employer. *It is a pre-payment that offsets the employer’s UAL contribution payments by creating an additional rate reduction component.* Consult OAR 459-009-0084 and -0085 for more information.

Actuarial Valuations

System demographics, assets, liabilities and funded status are evaluated every year in an Actuarial Valuation. **The Actuarial Valuations done in odd years are the basis for employer contribution rates.** Those done in even years are advisory only. **Employer rates change on July 1st of each odd year (2009, 2011, 2013, etc.) based on the previous odd year’s Actuarial Valuation. This means there is a lag of 18 months between employer rate changes and the Actuarial Valuation that calculated those rates (e.g., employer rates effective July 1, 2009 were calculated in the 2007 Actuarial Valuation).**

Programs that may have Unfunded Actuarial Liability (UAL):

OPSRP Pension program.

PERS Ch. 238 Pension program.

RHIA/RHIPA (retiree medical insurance subsidies).

RHIA (Retirees Health Insurance Account) and RHIPA (Retirees Health Insurance Premium Account) provide health insurance subsidies to qualified retirees. **All employers will have a RHIA unfunded actuarial liability but only state agencies and the judiciary will have a RHIPA unfunded actuarial liability.**

Employer rates and rate “pools”.

Rate “pooling” allows separate employers to be part of a group of employers for purposes of determining pension costs and contribution rates. Pooling distributes pension liabilities and assets across the entire group. This distribution will not necessarily reduce employer rates, but can reduce the volatility, or rate of change, in those rates from one rate period to another.

There are two rate pools:

- 1) State & Local Government Rate Pool (SLGRP):** Cities, counties and special districts that participate in PERS may choose to join this pool. State agencies, community colleges and public institutions of higher education are required by law to be part of this pool.
- 2) School District Pool:** All Oregon school districts are required by law to be part of the school district pool.

Where does the money go?

Incoming Normal Cost (NC) and Unfunded Actuarial Liability (UAL) contributions are placed in PERS Employer Reserves. Each employer has its own Employer Reserve Account and the actuary combines those accounts to develop rates for employer members of each actuarial pool. Pooled employers share in their pool's Employer Reserve.

Employer Reserve funds are deposited with the Oregon State Treasurer and invested under the direction of the Oregon Investment Council (OIC).

Incoming Individual Account Program (IAP) contributions, invoiced at a statutory 6% of total subject salary, are also deposited with the Oregon State Treasurer and invested under the direction of the Oregon Investment Council (OIC) Member IAP accounts are maintained by a third-party administrator contracted with PERS for this service.

Earnings on Employer Reserve and IAP account funds are credited annually in March of each year, when the PERS Board adopts earning crediting rates for the previous year.

This completes a review of Employer Rates, UAL, Normal Cost, Side Accounts, and where the money goes.

Questions?

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