

Unfunded Actuarial  
Liability Resolution  
Program

# Guide to Understanding Your Rate

*The purpose of this guide, created as part of PERS' Unfunded Actuarial Liability (UAL) Resolution Program, is to help you understand the factors that affect your employer contribution rate and what you can do to potentially reduce it.*

## 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 intends to explain PERS employer rate information in the simplest terms possible, some actuarial information is simplified and may not apply to all situations or employers.

## About this guide

Terms that are **cherry-red colored** are defined in the “Glossary” section at the end of this guide. Click a term to go to the page that contains the definition.

Click “return to table of contents” in the footer of any page to return to the beginning of the guide.

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

The charts and graphs in this document were prepared for discussion purposes by Milliman for PERS. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

This guide is one of a series. To see the other guides, go to the [Employer Rate Relief Programs](#) section of the PERS website.

## Assistance

If you have questions about any of the information in this guide or about your agency’s particular situation, email [Actuarial.Services@pers.oregon.gov](mailto:Actuarial.Services@pers.oregon.gov).

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## Introduction

There are about 900 public employers like you that participate in the Oregon Public Employees Retirement System. The retirement benefits you provide are paid by the PERS Trust, which is mainly funded by employer contributions and investment earnings.

By paying your calculated employer contribution rate, you are doing your part to ensure benefits are available to members.

The rate you contribute depends on a number of factors, which can lead to wide-ranging rates among employers, as shown in the image to the right.

System demographics, assets, liabilities, and funded status are evaluated every year in an **actuarial valuation**. The valuations done in odd years are the basis for employer contribution rates.

Those done in even years are **advisory rates** only.

### Contribution rate overview

Employer contribution rates must be approved by the PERS Board. The PERS Board considers the following objectives and principles when evaluating employer contribution rates:

- Transparent process and inputs.
- Predictable and stable employer contribution rates.
- Protected funded status that ensures secure future benefit payments.
- Equitability across generations of taxpayers funding the system.
- Actuarial soundness (i.e., if all assumptions were met, the system would be fully funded).
- Governmental Accounting Standards Board (GASB) compliance.

Tier One / Tier Two Payroll (reflects 2.40% member redirect offset)	OPSRP General Service Payroll (reflects 0.65% member redirect offset)	OPSRP Police and Fire Payroll
14.20%	11.01%	15.80%
20.73%	17.54%	22.33%
5.40%	2.21%	7.00%
6.24%	3.05%	7.84%
16.31%	13.12%	17.91%
17.96%	14.77%	19.56%
27.61%	24.42%	29.21%
0.00%	0.00%	0.64%
16.06%	12.87%	17.66%
0.60%	0.00%	2.20%
20.00%	16.81%	21.60%
4.63%	1.44%	6.23%

Figure 1. Sample contribution rates

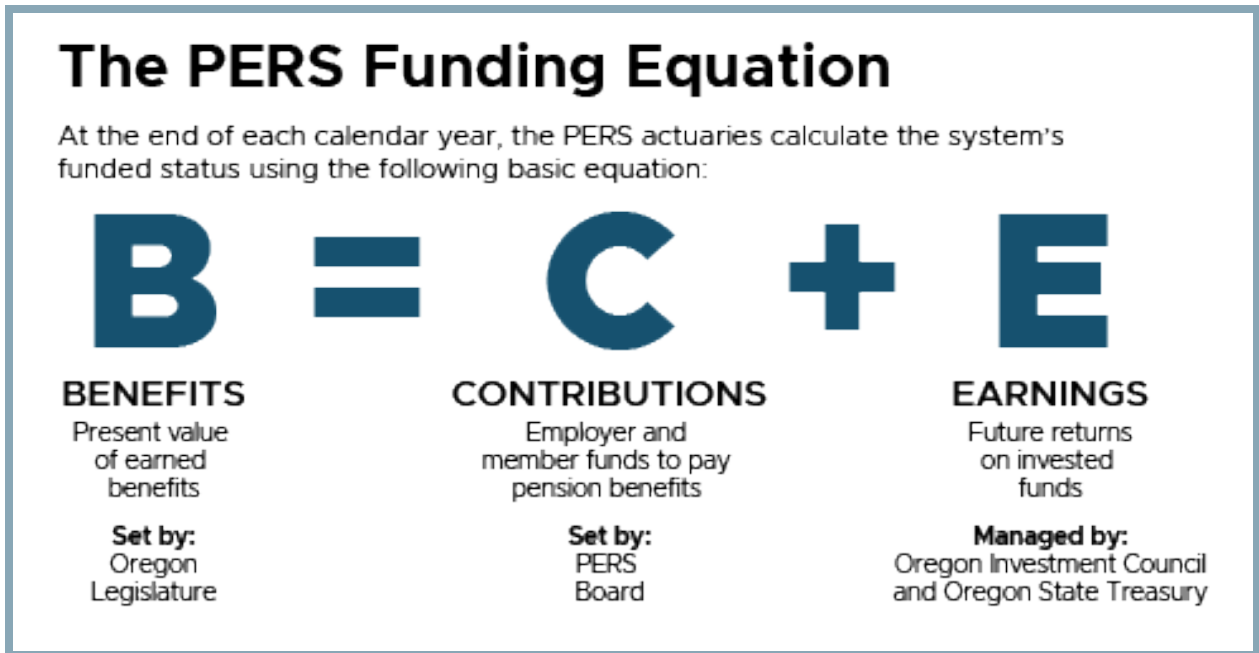


Figure 2. PERS funding equation

Employer rates change **July 1 of each odd year** (e.g., 2025, 2027, 2029) 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 is used to calculate those rates (e.g., employer rates effective July 1, 2025, were calculated as of the 2023 year-end actuarial valuation).

For the purposes of this guide and the valuation, it is important to note that your employer contribution rate represents employer contributions to fund **pension benefits only**. It does not include the 6% employee Individual Account Program (IAP) contribution, even if you are paying the contribution on employees' behalf. PERS refers to all IAP contributions as "member contributions."

If you have questions about the IAP, review PERS' [What is the IAP? webpage](#) for members.

To access current and past contribution rates for individual employers, go to the [Contribution Rates webpage](#).

## How your rate is calculated

The PERS consulting actuary calculates your rate using member data plus all the factors described in the “[Components of Your Contribution Rate](#)” section of this guide.

### Member data

The actuary reviews the data that you entered for the calendar year to determine how many active, inactive, and retired employees you have.

- It is essential that you report all member data to guarantee accurate rate calculation.
- Only members who have passed their six-month waiting period and work at least 600 hours a year are considered for the purposes of the valuation.
- Subject salary reported through December 31 will form the basis of your combined valuation payroll, which is a key element in all of the actuary’s calculations for your rate and the single biggest factor that you control.

### Calculations

The table below is a high-level explanation of rate calculations. Your rate may have more variables, which are explained in your actuarial valuation.

Number	Divided by	Equals
Annual cost for current members’ projected benefits	Combined valuation payroll	<b>Normal cost rate</b>
UAL amount	Combined valuation payroll (potentially adjusted by <b>rate collar</b> )	<b>UAL rate</b>
Transition liability or surplus amount	Combined valuation payroll and amortization factor	<b>Transition liability or surplus rate</b>
Side account amount	Combined valuation payroll and average amortization factor	<b>Side account rate relief</b>

Specific calculation details are always included in your valuation or in the system-wide report.

## Components of your contribution rate

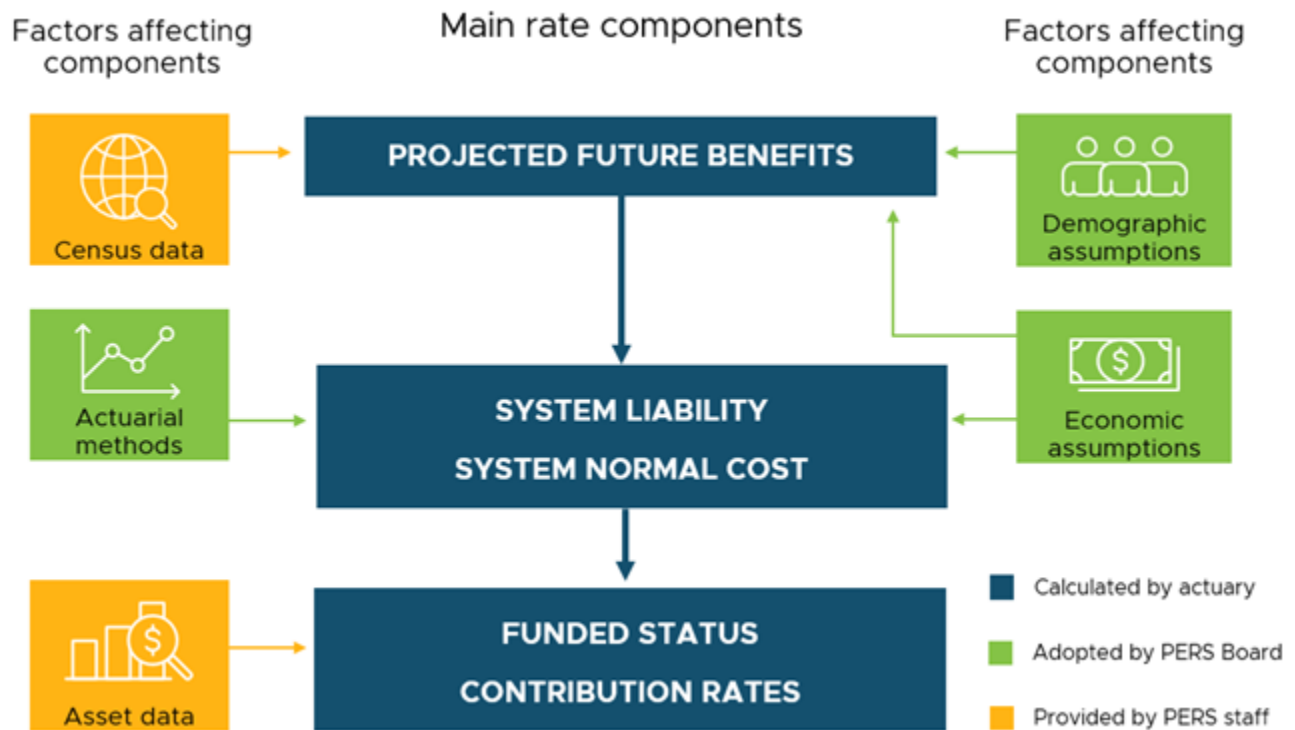


Figure 3. Rate-setting components and their sources

When calculating contribution rates, the actuary considers a number of factors:

- Normal cost
- Unfunded actuarial liability (UAL)
- Employer pool
- Member redirect offset
- Retiree healthcare
- Demographics
- Economic factors
- Side accounts (if applicable)
- Transition liabilities/surpluses (if applicable)

By using facts from the past, combined with assumptions about the future, the actuary aims to set a rate that will accurately provide for past, current, and future pension benefits.

## Normal cost rate

The normal cost rate represents the projected cost of providing benefits for current employees for the next year. If there were no UAL, normal cost would be the only rate you would need to pay. Normal cost is calculated separately for Tier One/Tier Two and OPSRP.

### Assumptions considered

1. The rate of investment return adopted by the PERS Board.  
The investment return assumption, or **assumed rate** of return, has the biggest impact on the overall determination of liabilities. The current assumed rate is 6.9%.
2. Member mortality.
3. The number of all types of retirements, withdrawals, and disabilities.
4. Salary-increase assumptions, including merit increases, unused sick leave, and vacation pay.
5. Changes to payroll growth or the rate of wage inflation.
6. Interest crediting.
7. Administrative expenses.

### Normal cost modifier

**Member redirect:** A percentage of every qualifying member's salary that was previously contributed to their IAP account is redirected into their Employee Pension Stability Account (EPSA). The funds offset your normal cost rate. Learn more on the employer [Member Redirect webpage](#).

## Unfunded actuarial liability (UAL) rate

The UAL 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: 20 years for Tier One/Tier Two and 16 years for OPSRP. Retiree Healthcare (i.e., RHIA and RHIPA) is amortized over 20 years when the program is 100% funded, which began with the year-end 2020 actuarial valuation.

If any variables that make up this rate do not meet the actuary's assumptions, the rate and future projections will be adjusted in future valuations. The variables that influence UAL rate the most are:

- The assumed rate vs. actual interest earned by the PERS Fund.
- Legislative changes.
- Projected payroll growth vs. actual payroll growth.

A **negative UAL rate** means an employer has a surplus; their assets are greater than their liabilities. A **positive UAL rate** means an employer's liabilities are greater than their assets. Most employers have a positive UAL.

**Important to note:** Because UAL is the difference between liabilities owed and the assets available to pay them, you cannot "pay off" the UAL. To decrease it, you must increase assets or decrease liabilities.



Liabilities defined

Your **liability** is the dollar amount that represents how much it would cost to pay the retirement benefits of all your retired employees plus all the benefits that your current employees have already earned.

Through December 2023, 69% of the total accrued liability (i.e., the cost of PERS benefits) was for members who were no longer working in PERS-covered employment (i.e., they were retired or inactive members). This is partly because, at that point in time, most retirees were Tier One – PERS’ most expensive plan. As shown in the chart below, Tier One and Tier Two retirees make up 63% of the liability. OPSRP retirees and inactive members (i.e., members who are not currently earning benefits) make up the remainder of the 69%.

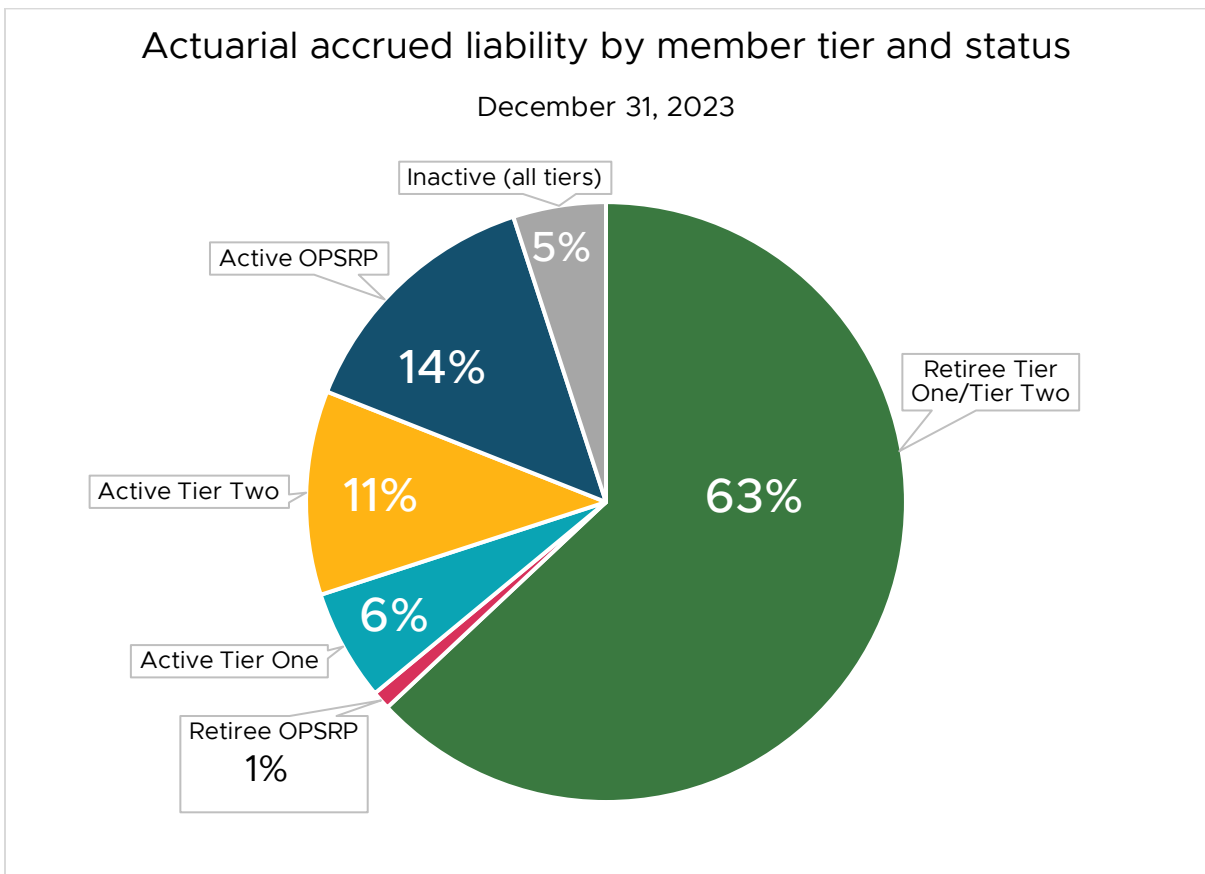


Figure 4. Actuarial accrued liability broken down by member tier and status

Figure 5 illustrates the system's normal cost. Active Tier Two members account for 20% of the system's normal cost compared to about 11% of the system's actuarial accrued liability. Active OPSRP members account for 71% of the normal cost compared to 14% of the actuarial accrued liability.

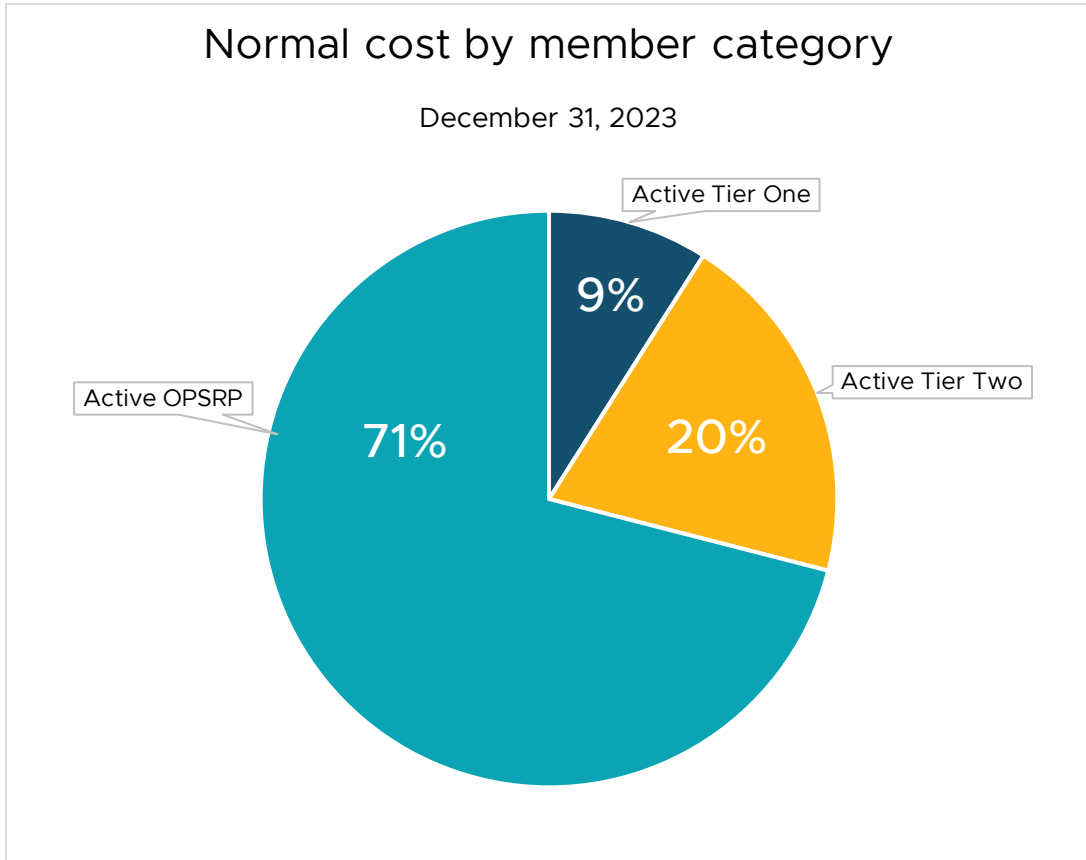


Figure 5. Normal cost broken down by member category

### Assets defined

**Assets** are the market value of accumulated employer contributions for pension benefits, as well as the investment income earned by these contributions. All employer contributions are invested in the OPERF, which is managed by the Oregon Investment Council.

Additional sources of assets for the fund are:

1. Side accounts.
2. Payments on transition liabilities.
3. Payments on pre-SLGRP liabilities.

However, these sources are tracked and reported separately.

## Employer pool

When the assets and liabilities of multiple employers are merged, that creates a pool. The main benefit of being in a pool is greater rate stability through sharing liabilities. The disadvantage is that an individual employer cannot reduce its own liability; its efforts can only reduce the liability of the whole pool.

Pools are established by the Legislature through statute; for some pools, participation is mandatory.

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

### System-wide pools

- **Oregon Public Service Retirement Plan (OPSRP) pool**

All employers are assigned the same OPSRP General Service **normal cost rate** and Police and Fire normal cost rate, as well as the same OPSRP **UAL rate**.

- **Retiree Healthcare pool**

On your valuation, you also have a Retiree Healthcare normal cost and Retiree Healthcare UAL rate. These rates apply to Retiree Healthcare Insurance Account (RHIA). The cost for Retiree Health Insurance Premium Account (RHIPA) is also included in this rate for state agencies and the judiciary only.

- 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. Currently, there is no RHIPA UAL because the program is fully funded.

### Employer pools

The two largest employer pools are the State and Local Government Rate Pool (SLGRP) and the School Districts Pool. These pools aggregate Tier One/Tier Two liabilities. Additionally, there is the smaller Judiciary Pool.

Joining the SLGRP (formerly mandatory) is optional. The School Districts Pool and Judiciary Pool are mandatory.

- **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**. 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.

SLGRP members' normal cost rate is determined at the pool level, and then a weighted average is calculated per employer based on payroll.

SLGRP members also pay two other rates that ensure no member is unfairly subsidizing the UAL rates of others or vice versa: a transition liability or surplus rate and a pre-SLGRP liability or surplus rate. These additional rates are explained in more detail in the next two subsections in this guide.

These rates may not be applicable to all employers of this rate pool.

- **School Districts Pool**

All K–12 school districts, charter schools, and education service districts are required (by statute) to be a part of this single pool for purposes of actuarial modeling and payroll rate calculations. 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.

- **Judiciary Pool**

Members of the State Judiciary are pooled together in the Judiciary Pool.

**Independent employers:** 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.

### Transition liability/surplus rate (SLGRP only)

A transition liability or surplus is established when a local government employer elects to join the SLGRP.

The individual employer's **funded status** is compared to the funded status of the pool at the time of the employer's entry.

- If the employer is better funded than the pool, the employer will have a **transition surplus**.
- If the employer is less well-funded than the pool, the employer will have a **transition liability**.

The transition liability or surplus acts as an addition to or reduction from the employer's pooled contribution rate. This amount, calculated by the consulting actuary and amortized over a period of 20 years, is reduced by deductions or payments by the employer and increased by interest charges at the **assumed rate**.

A transition liability protects the other participants in the pool by ensuring the pool does not take on a newly pooled employer's excess liability.

A transition surplus protects the individual employer by ensuring that it does not lose assets to the pool.

In a valuation, a transition liability is treated as a debt owed to the SLGRP by the employer; a transition surplus is treated as a loan by the employer to the SLGRP.

An employer must pay off a transition liability prior to establishing a side account. Paying off a transition liability is the **only time** an employer can, dollar for dollar, pay off the UAL.

### Pre-SLGRP liability/surplus rate (SLGRP only)

Prior to the formation of the State and Local Government Rate Pool, there were two separate pools: the State and Community Colleges Pool (SCCP) and the Local Government Rate Pool (LGRP).

The UAL for each of these groups is maintained separately from the SLGRP.

State and community colleges have a **pre-SLGRP liability**.

Local governments have a **pre-SLGRP surplus**.

### Side account for rate relief

When an employer makes a lump-sum payment to prepay part or all of their pension liabilities, PERS places the sum in a special account called a “side account.” This account is attributed solely that employer and is held separate from other employer reserves. The money is invested in the PERS Trust and is subject to the same earnings and losses as all investments in OPERF. Learn more about how side accounts work on the [Employer Side Accounts webpage](#).

Establishing a side account increases your assets. To account for this increase in your assets, PERS provides you with a rate offset, which reduces your employer contributions and rates over a period of time.

To learn more about how to reduce your rate with a side account, see the section “What You Can Do to Reduce Your Employer Contribution Rate” on the next page.

## What you can do to reduce your employer contribution rate

You have two ways to directly affect your rate: changing your combined valuation payroll and establishing a side account.

### Combined valuation payroll

**Combined valuation payroll** is one variable of your contribution rate that you can control. If you have significant changes to payroll, you may see substantially altered rates from year to year. Combined valuation payroll is usually the reason employers see significant rate changes, outside of system-wide changes.

Combined valuation payroll is the portion of the equation that you control for the following components of your rate.

#### Normal cost rate

Normal cost is the annual cost, or **liabilities**, of current plan provisions, assumptions, and demographic information for the current year.

- **Independent employers:** This is a direct reflection of your Tier One/Tier Two experience.
- **SLGRP:** Normal cost rate is the weighted average based on the SLGRP normal cost rate.
- **School Districts Pool, OPSRP, and Retiree Healthcare** all use each respective pool's combined payroll.

#### UAL rate

If you are a member of the **SLGRP**, your **UAL rate** is the same as the pool, but the amount of UAL allocated to you is determined based on your combined valuation payroll. Additionally, the UAL rate for the pool is divided by the pool's combined valuation payroll, so significant swings in payroll for the pool could alter the UAL rate.

- **School Districts Pool:** Because your UAL rate is the same across all employers, any substantial changes in the pool for combined valuation payroll could alter the UAL rate.
- **Independent employers:** The UAL rate reflects your actual experience and can vary significantly from valuation to valuation if you have irregular payroll.

#### Side accounts and surplus/liability rates

These rates are assigned solely to the individual employer, and the amount of each rate is determined specifically based on the combined valuation payroll.

Each amount associated with these rates is reduced annually based on payroll.

## Side account

A side account prepays employer pension obligations. Employers have the option of prepaying contributions in one lump-sum payment of at least \$250,000 or 25% of their Tier One/Tier Two UAL (whichever is less). This amount is initially applied to offset your UAL rate; if there is any left over, it offsets the rest of your Tier One/Tier Two liabilities and then your OPSRP UAL rate.

Employers have two options for side account calculation: pay PERS' consulting actuary to do an actuarial calculation or wait for your side account to be included in the system-wide valuation. Each calculation method has different requirements and costs, as shown in the table below.

Factor	Actuarial calculation	Valuation calculation
Start date	Employer can select the first of any month in a rolling 12-month period for the rate to begin.	Rate will be effective July 1 following the publication of the valuation for that year. For example, if you make your payment in 2025, the valuation will come out in fall 2026, and your rate offset will be effective July 1, 2027.
Cost	Minimum of \$1,000.	No cost.
Rate-offset preview	Documentation is provided to the employer in advance of their payment, which allows the employer to determine if this is the right choice.	Employers will not know the rate offset amount until the valuation is published.
Flexibility	Employers can choose multiple amounts, rate offset dates, or amortization periods for an additional \$250 per request.	No flexibility with effective dates.
Situations when calculation is required	Required for employers choosing a shortened amortization period or a deferred rate offset.  Required for any employer who must pay off a transition liability first.	None.

### How to request a side account

1. Email [actuarial.services@pers.oregon.gov](mailto:actuarial.services@pers.oregon.gov) to inform us that you are interested in a side account.
2. Include the amount you would like to deposit, the date when you would like to deposit your lump-sum payment, and any questions you might have.
3. Actuarial Services will respond within three business days.

### Learn more

For more information about side accounts, go to the [Employer Side Accounts webpage](#).

## Legislation and employer contribution rates

### The Oregon Legislature sets PERS' benefit design

The Oregon Legislature is the “plan sponsor” for PERS, the system, and has the sole authority to determine the benefit structure for public employees. PERS, the agency, administers the retirement system (i.e., the “plan”) for participating public employers and must follow all state and federal laws.

When making legislative changes to PERS, legislators look to their constituents, lobbyists, and other stakeholders to provide them with information about upcoming bills during a legislative session.

### Recent legislative changes

**Senate Bill (SB) 1049**, signed into law in 2019, made several adjustments to PERS to slow the increase in employer contribution rates. Employers felt the initial impact of SB 1049 on employer rates for the 2021-23 biennium.

SB 1049 initiated a number of programs designed to reduce employer rates over time. Learn more about these and other rate-relief programs on the [Employer Rate-Relief Programs webpage](#).

**House Bill 2296 (2023), Work After Retirement extension**, extended the sunset of SB 1049 (2019) work after retirement provisions for an additional 10 years. For years 2020–2034, the PERS limitation on hours that a rehired retiree can work is lifted (restrictions apply for some early retirees and some retirees receiving Social Security benefits). Employers pay their normal employer contribution rate for these working retiree wages. Because these employees are not accruing benefits, all payments you make on these employees increase your contributions above what was anticipated, thus increasing your assets into the system.

#### **House Bill 4045 (2024) Public Safety Workforce Stabilization Act:**

- Adds elected district attorneys, as well as forensic scientists and evidence technicians at the Oregon State Police, to the definition of “police officer” for PERS purposes, giving these positions Police and Firefighter benefits. Effective for service performed on or after January 1, 2025.
- Lowers the normal retirement age for Oregon Public Service Retirement Plan (OPSRP) Police and Fire members who have fewer than 25 years of service from age 60 to age 55. For Police and Fire members with 25 years or more of service credit, retirement age remains the same at age 53. This provision is effective for retirement dates on or after January 1, 2025.
- Creates a new member classification for some OPSRP members called “Hazardous Position.” Learn more on the [Hazardous Position webpage](#).



## Glossary

### Actuarial valuation

An actuarial valuation is an appraisal of a pension fund's assets and liabilities. A consulting actuary calculates the valuation using assumptions about future economic and demographic conditions to determine the funded status of a pension plan.

### Advisory rate

In the fall of odd-numbered years, the PERS actuary produces advisory employer contribution rates for all employers for the upcoming biennium. These rates represent actual experience but will not affect your rate.

### Amortize

Amortization is an accounting technique used to spread costs over time that could compromise current cash flow, like a mortgage on a house.

### Assets

The money going into your pension, such as your employer contributions and earnings on investments.

### Assumed rate

The assumed rate is the rate of investment return (including inflation) that the PERS Fund's regular account is expected to earn over the long term.

The PERS Board decides the assumed rate based on:

- The long-term projection of investment returns based on the asset allocations of the Oregon Investment Council and the related capital market expectations.
- PERS' actuary's independent analysis of the projected returns from that asset allocation over a long-term investment horizon.

The current assumed rate is 6.9%, effective January 1, 2022. The assumed rate is reviewed, adopted, and incorporated into Oregon Administrative Rule by the PERS Board every two years as part of the system's [Experience Study](#).

### 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. As of December 31, 2023, the system-wide PERS’ funded status was 72.4% without side accounts and 77.5% including side accounts.

Each pool also has its own individual funded status:

	SLGRP	School Districts	OPSRP	Retiree Healthcare
Without side accounts	69.9%	75.9%	76%	221%
With side accounts	74.3%	84.7%	76%	N/A

**Liability**

A liability is a debt or financial obligation for which an organization is responsible. According to [CNBC](#), “(A) pension liability is the difference between the total amount due to retirees and the actual amount of money the company has on hand to make those payments.”

The employer contribution rates that the PERS actuary creates are all future based. The actuary takes data for a year that passed (e.g., 2023) and projects the correct rate to cover benefit needs 18 months in the future (e.g., 2025–2027). It does this by establishing actuarial assumptions, one of which is the assumed rate of 6.9% for salary wage growth. There will be variance year to year, but over a 20-year period the rates average out.

**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.

**Normal cost rate**

Your normal cost, divided by your applicable payroll, is your normal cost rate.

**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](#).

### Rate-setting cycle

Actuarial valuations are conducted annually. They alternate between a rate-setting year (odd years) and an advisory year (even years).

### UAL rate

Your UAL is the difference between your accrued assets (employer contributions and investment earnings) and accrued liabilities (the cost of pension benefits earned). If your liabilities become larger than your assets, your contribution rate increases.

The UAL is not a stagnant amount; instead, it changes based on a number of factors. In general, changes in the UAL are driven by:

- 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.