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Public Employees Retirement System Side Accounts

Oregon Revised Statutes provides for a voluntary mechanism by which individual employers may pre-pay retirement contributions by establishing what are commonly referred to as "side accounts." The purpose of this brief is to provide background on Public Employee Retirement System (PERS) side accounts, including recent statutory and administrative changes.

Definition

Employers have the option to make voluntary lump-sum payments to PERS that are in addition to the employer's required contribution. With few exceptions (i.e., payment of transition liability), lump-sum payments are deposited into "side accounts," and are used to offset a portion of the contributing employer's future PERS contribution rate, according to an amortization schedule. Side account balances are never entirely utilized in a single biennium. Employers without a side account pay the employer contribution rate without side account offset.

Side accounts, while held separate from other employer reserves in the Oregon Public Employees Retirement Fund, are assets of the PERS system and reduce a participating individual employer's net unfunded liability. Once deposits are made into side accounts, employers are unable to withdraw or repurpose the funds. Employees have no vested interest in side accounts as they are an asset of a participating employer not employee. The state also has no ability to access (or re-appropriate) side account balances, as they are held in statutory trust accounts.

Rationale and Risk

Side accounts are viewed as a financially prudent practice for a variety of reasons, among them are that the pre-funding of employer contribution rates: (a) reduces the financial impact of paying full employer contribution rates in any single budget cycle; (b) serves as a lockbox dedicating funding for only PERS employer contributions exclusive to the employer that funded the side account; (c) is included in actuarial valuations as an asset; (d) provides for an actuarially sound mechanism for reducing employer contributions over time; (e) allows for professional investing and presumably superior returns; and (f) provides a mechanism for funding part of a future liability. However, these potential benefits must be weighed against the potential risks, including increased employer rate variability due to side account rate offsets being tied directly to investment performance, changes in the employer's payroll over time, as well as the short-term risk of overfunding.

Legal Authority

Side accounts are a relatively recent statutory construct (ORS 238.229), which were authorized during the 2002 Third Special Legislative session (Chapter 5, Oregon Laws 2002 s.s.3). This preceded legislative actions taken during the 2003 regular legislative session when significant reforms were made to both retirement benefits and the financing of these benefits. One such effort was a referral to Oregon voters of Ballot Measure 29, authorizing the issuance of pension obligation bonds (POB) to finance the state's pension liabilities. Voter approval came in the form of a special election held on September 16, 2003 (Article XI-O of the Oregon Constitution). Thus, legislation was necessary to establish side accounts as a mechanism to hold and account for POB proceeds, however, statute does not mandate POB proceeds be deposited into side accounts. Statute was written broadly so that employers could also fund side accounts with cash deposits. The only statutory proviso was that each deposit required a new side account, presumably to allow for enhanced tracking of POB issuances. The side account statute was amended during the 2009 Legislative session to allow for the use of side accounts to offset an employer's Individual Account Program (IAP) contribution, under limited circumstances (Chapter 889, Oregon Laws 2009). Statute was again amended by the Legislature in 2017, which is discussed later in this brief under the *Legislative Initiative section*.

Pension Obligation Bonding

An in-depth discussion of POBs is beyond the scope of this brief (see *State Pension Obligation Bonding*, LFO Budget Information Brief 2016-6 and *State POB Capacity*, LFO Budget Information Brief 2016-8) other than to say that POB issuances are considered investment speculation and their viability is based on investment returns exceeding debt service or principal and interest costs over the long-term (rather than a short-term market inefficiency). Any decision to issue POB's means that various factors, such as the current debt and equity markets, the state's overall debt capacity, the size of the Unfunded Accrued Liability (UAL), and the potential effects on employer contribution rates all need to be carefully considered because the inherent risk of POBs is that they could increase total employer PERS costs if investment returns fall below debt service costs.

Level of Participation

At present, the majority of PERS' approximately 915 employers have chosen not to fund side accounts and, as such, these employers pay the entire cost of the employer contribution rate each period without side account offset. Approximately 143 employers (or 16%), however, have voluntarily chosen to participate and hold one or more side accounts. Participation includes: 95 school districts; 17 community colleges; 13 cities; eight counties; nine special districts', and one account for state agencies. Special Districts includes such entities as the Oregon Health and Science University and the Port of Portland, among others. The 143-employer figure is misleading in that over 100 agencies of state government are counted as a single employer. The "state," as defined by PERS, has a somewhat unique definition and includes some entities that are not typically considered state agencies, such as the Lottery Commission, Oregon Corrections Enterprises, the State Accident Insurance Fund Corporation, the Oregon State Bar Association, and 23 other boards and commissions. These entities were included in the state's UAL pool when the state issued POBs in 2003. Also included as a state agency are the now independent public universities of the former Oregon University System. The "state," under this definition, does not include local school districts.

Funding and Assets

Side accounts may be funded by one or more of the following revenue sources: 1) POB proceeds; 2) lump sum cash payments; and 3) net investment earnings (or losses). According to the December 31, 2015 PERS actuarial valuation, side account's total $5.6 billion in assets (out of total pension-only assets of $54.4 billion), the precise amount of which originated from POB issuances is unspecified and not tracked by PERS; however, POB proceeds are assumed to have provided the initial funding of most side accounts and comprise most of the corpus of side accounts. Of note is that just because an entity has chosen to issue POBs, nothing precludes that same entity from also making cash contributions into a side account, which some participating entities have chosen to do.

Information in this brief is based on the December 31, 2015 PERS actuarial valuation for two reasons: the 2016 valuation was only recently published after this brief was already being developed, and the 2015 valuation serves as a clear baseline for future side account changes.

Side accounts can be quantified by rate pool, if an entity participates, by major employer group, or by individual employer. The School District Pool has a $3 billion balance (54% of all side accounts); the State and Local Government Rate Pool has a $2.5 billion balance (44%); and independent employers cumulatively have a $90 million balance (2%). The following table displays side account balances by major employer group.

Table A: Side Account Balances by Employer Group (in millions)
(as of December 31, 2015)

Major Employer Group	Side Account Balance	% of Total
School Districts	$3,041.6	54.0%
State Government	1,898.2	33.7%
Cities	134.0	2.4%
Counties	62.2	1.1%
Public Universities*	--	
Community Colleges	403.5	7.2%
Special Districts	94.8	1.7%
System-wide Total	$5,634.3	100%

**Included within State Government total.*

The single largest side account balance, the funding of which came exclusively from a 2003 POB issuance, belongs to the agencies of state government and totals $1.9 billion. The Clatsop County 4-H District has the smallest side account balance at $37,414. The average side account balance across all 143 employers is $39.4 million and $25.2 million, if the side account for the state and its side account is excluded. Only four entities, including the agencies of state government, hold 53% of the total side account assets ($3 billion); 24 entities hold 75% of the balance ($4.2 billion); 60 entities hold 90% of the balance ($5.1 billion); and 83 entities hold 95% of the balance ($5.4 billion).

The most recently established side accounts total $165.5 million, including earnings, and are detailed in the following table:

Table B: Example of Recent Side Account Activity (in millions)
(balances as of December 31, 2015)

PERS Employer	Source of Additional Contribution	Existing Side Account	New Side Account	Total Side Account(s) Balance	Percent Change
Beaverton School District	POB	$153.9	$73.4	$227.2	48%
Salem-Keizer School District	POB	194.1	48.0	242.1	25%
Hillsboro School District	POB	82.8	36.8	119.6	44%
Oregon Health and Science University	Cash	7.5	7.3	14.8	97%
Total		$438.3	$165.5	$603.7	38%

Investment Returns

Side accounts are invested by the Oregon Investment Council (OIC) in the same manner as employer contributions. Side accounts earn the market rate of return, positive or negative, and there is no guaranteed rate of return. Actuarial calculations for future earnings are based on the assumed (earnings) rate of return, which is established administratively by the PERS Board. The PERS Board recently lowered the assumed rate from 7.5% to 7.2% per annum beginning retroactively with the December 31, 2016 actuarial valuation, which may translate to a lower side account offset depending on the individual employer's payroll. Actual earnings, after investment expenses, are credited to side accounts once each calendar year. From calendar year 2011 to 2016, side accounts were credited with an average of $444.3 million per year based on an average total side account balance of $5.2 billion, with the lowest year crediting being $122 million (2015) and the highest year crediting being $855.7 million (2013), according to annual earnings crediting reports to the Legislature. The following table provides a history of side account net investment returns, as compared to the assumed earnings rate:

Table C: Side Account Net Investment Returns vs. the Assumed Earnings Rate

# Years	Valuation Year	Average Side Account Earnings/Loss	Assumed Earnings Rate	Difference from Assumed Earnings Rate
1	2015	1.87%	7.50%	-5.63%
2	2014	7.24%	7.50%	-.26%
3	2013	15.62%	7.75%	+7.87%
4	2012	14.68%	7.75%	+6.93%
5	2011	2.21%	8.00%	-5.79%
6	2010	12.44%	8.00%	+4.44%
7	2009	19.12%	8.00%	+11.12%
8	2008	-27.18%	8.00%	-35.18%
9	2007	9.47%	8.00%	+1.47%
10	2006	15.45%	8.00%	+7.45%
11	2005	13.74%	8.00%	+5.74%
12	2004	13.27%	8.00%	+5.27%
	Average	8.16%	7.88%	+0.29%

Side accounts earned the most in 2009, with a return of 19.12% and the least in 2008, with a loss of 27.18% due to the financial crisis at that time. The average return between 2004 and 2015 was 8.16%. While employers may hold other reserve accounts for themselves apart from PERS side accounts, such employers may have difficulty replicating the returns produced by the OIC.

Employer Contribution Offset

Side account assets are included in actuarial valuations of the PERS system as they are assets available to pay benefits, and are factored into an employer's individual employer contribution rate as it is determined each biennium as a reduction in the rate employers would otherwise pay. Employers without a side account pay the full employer contribution rate without side account offset. An employer's contribution rate is reduced by the side account rate offset after the impact of rate collaring on that employer's base rate, if one is determined to exist, which is an administrative methodology employed by the PERS Board to smooth extraordinary rate increases or decreases from one biennium to the next (*2013-15 PERS Rate Collar*, LFO Budget Information Brief #2014-2). In practical terms, this means that potential "offsets" to employer contributions rates include, among others not discussed in this brief: (a) rate collar (which is technically a payment deferral); and (b) side account, if an employer has such an account.

Side account balances are never entirely withdrawn in a single biennium. Side account proceeds are used to pre-fund employer reserves rather than to directly fund retiree or beneficiary benefit payments. Instead, a side account balance, along with investment earnings (or losses), is amortized over a period of time established by the PERS Board rules, typically corresponding to the amortization period of the UAL against which the side account deposit was made. Side accounts are re-amortized every two years in order to take into account earnings (or losses) and changes to the employer's payroll. Of note is that the amortization schedule for the POB debt service schedule and the Board's rules may not match, but the employer is informed of the amortization period so they have the opportunity to align their debt service payments with the expected duration of the side account offset. Of course, if the side account experiences dramatic investment losses, it may be depleted before the original amortization schedule was to have run out. The reason why is due to the variability of investment earnings that could impact the amortization schedule whereas a similar schedule for debt service is relatively fixed. The following table illustrates the impact of the side account offset using the ***average*** **school district** pension contribution rate:

Table-D shows that, on average, the employer contribution rate for School Districts would be 25.43% before offset and 15.17% after offset. The 10.26% offset produces an employer rate 40% lower than the rate without offset.

Table D: Employer Pension Contribution Side Account Offset Example

Tier 1/Tier 2 Collared Pension Contribution Rates (excluding Individual Account Program)	School Districts (2015 Valuation)
Normal Cost Rate	13.28%
Tier 1/Tier 2 UAL Rate	19.63%
Rate Collar	(7.48%)
Total Pension Rate	25.43%
Side Account Offset	**(10.26%)**
Net Pension Rate	15.17%

Of course, for schools in particular, the side account was funded by a POB with debt service costs that may exceed the rate offset (or may be less, all depending on when the side account was established and the resulting investment performance compared to assumptions). Stated more simply, a school district's POB issuance could be "underwater," which occurs when the POB side account offset is less than the cost of the associated POB debt service.

The following table summarizes the employer contribution rate relief from side accounts, by major employer pool or category. The table shows the average offset for the pools and independent employers, as well as the system-wide average, by biennia. State agencies receive the offset listed in the table; however, the side account offset for all other employers is unique to each employer with a side account (i.e., not the average).

Table E: Employer Contribution Rate Side Account Offset History

	Biennia	Valuation Year	Actual State Agencies Only	Average State and Local Government Rate Pool	Average School Districts Pool	Average Independent Employers	Average PERS System Totals
1	2017-19	2015	7.11%	4.70%	10.26%	1.05%	6.14%
2	2015-17	2013	7.78%	4.99%	10.62%	1.06%	6.38%
3	2013-15	2011	6.79%	4.25%	8.35%	0.86%	5.26%
4	2011-13	2009	6.67%	4.24%	7.75%	0.87%	5.11%
5	2009-11	2007	9.83%	6.20%	10.51%	1.14%	7.20%
6	2007-09	2005	9.47%	6.37%	9.72%	0.70%	6.71%
7	2005-07	2003	8.06%	n/a	n/a	n/a	4.54%
8	Average		7.96%	5.13%	9.54%	0.95%	5.91%

For any given employer, the larger the side account balance, the higher the employer rate offset, and the lower the employer contribution rate. And, again, this offset must be compared to that employer's debt service cost, if the side account was funded with a POB, to actually determine whether that employer's net PERS costs are lower or higher than without the side account.

<u>Unfunded Accrued Liability</u>

Each calendar year, an independent actuarial firm hired by PERS conducts a system-wide valuation of PERS assets and liabilities. An Unfunded Accrued Liability (UAL) is created if the present value of the system's liabilities (benefits earned up to that point) exceeds the present value of the assets available to pay those liabilities (accumulated member contributions; employer contributions, including side accounts; and investment earnings). The most accurate characterization of the UAL includes side accounts because side account assets are included in actuarial valuations of the PERS system as they are assets available to pay benefits. Again, these assets are held in trust for the exclusive use of paying future employer contributions, a percentage of which is specifically attributable to the UAL. For example, PERS has a system-wide UAL, as of the end of calendar year 2015, of $21.8 billion, which includes UALs for both Tier One, Tier Two, and the Oregon Public Service Retirement Plan (OPSRP) pension plan (Active PERS members participate in one of three benefit programs depending upon when they were hired: Tier One for members hired before 1/1/1996; Tier Two for members hired on or after 1/1/96 but before 8/29/2003; and Oregon Public Service Retirement Plan for members hired after 8/29/2003). Alter taking $5.6 billion of side account value into account, however, the true UAL is rounded to $15.6 billion for a system-wide funded status of 79%. Too frequently the UAL amount cited is overstated due to the exclusion of side account balances.

The categorization of the UAL into major employer-types provides another perspective of the UAL. The following table compares major employer groups' gross UAL to their side account balances for a net UAL. On average, side accounts fund 27% of the pension UAL.

Table F: Comparison of UAL and Side Account Balance by Employer Group (in millions) (as of December 31, 2015)

Employer Group	Pension UAL	Side Accounts	Net Pension UAL	% Pension UAL Side Account Funded
School Districts	$8,418.6	$3,041.6	$5,377.0	36%
State Government	5,153.7	1,898.2	3,255.5	37%
Cities	2,122.7	134.0	1,988.7	6%
Counties	2,021.8	62.2	1,959.6	3%
Public Universities*	--	--	1,093.8	--
Community Colleges	925.2	403.5	521.7	44%
Special Districts	1,455	94.8	1,360.2	7%
System-wide Total	$21,190.8	$5,634.3	$15,556.2	27%

**An estimate included within State Government total.*

Currently, a few entities with side accounts have no unfunded liability and are overfunded in the PERS system. Overfunding is a risk of side accounts as the combination of contributions, timing, and, most importantly, investment returns can increase side account balances beyond 100% funding. For example, side account deposits and investment returns leading up to the calendar years 2005, 2006, and 2007 most certainly contributed to the overfunding of the PERS system during those years (104%; 109.7%, and 111.5%, respectively).

Importantly, side account contributions are viewed by some as a sound financial practice regardless of the existence of a UAL. A side account's existence does not change the underlying UAL, only how and when that UAL is funded.

Side Account Contribution vs. Lumpsum Payment

Confusion can arise between a side account contribution and a ***system-wide*** lumpsum payment. Foundational to this discussion is understanding that the financial responsibly for the UAL belongs to the individual PERS employers and not the State of Oregon. Side account contributions are employer-specific and provide rate relief only to the contributing employer. This can easily be confused with recent efforts calling for a ***system-wide*** lumpsum payment to paydown the total UAL, for which there is no precedent. A tertiary review of a **system-wide** lumpsum payment, or down payment, however, is worthwhile to frame the policy concept and how such a concept could relate to employer-specific side accounts, while setting aside the question of the source of the underlying funds for a lumpsum down payment.
The primary policy questions surrounding any potential system-wide lumpsum payment are:

1) *Should the funds be deposited into a single, newly established side account to be applied to all employers or into individual employer side accounts?* Putting the funds into separate side accounts for individual employers would conform to the current rate setting construct. The funds would be dedicated solely to those individual employers' future obligations and perhaps become assets of individual employers. Conversely, a single statewide side account could be established allowing more centralized control over account ownership and allocation decisions.
2) *Is the lumpsum to be allocated equitably among all employers?* Some relatively well-funded employers may not actually require additional funding, especially if already funding a side account(s), and could possibly be placed into a surplus situation, while some especially poorly funded employers could remain at comparatively high employer contribution rates.
3) *Where would the funds be deposited?* The options generally include: employee accounts or employer accounts; however, putting the funds into member accounts could increase the UAL, if the action were to lead to an increase in Money Match retirements. (The Money Match benefit is based on the value of the retiree's account balance rather than being a formula-driven benefit. A Tier 1 or Tier 2 retiree is entitled to the higher of the formula or Money Match benefit. An OPRSP member's pension benefit is exclusively formula-driven).

One option for a system-wide lumpsum payment could be a repayment of POBs issued by various entities, if the bonds were structured without a "make whole" call provision, which lowered the borrowing cost, but effectively made the bonds "non-callable" for refinancing savings to the state. In other words, if a POB were called, investors would be paid as if the bond had reached maturity. If a POB were paid off early, the associated debt service would no longer be required. The reduction in the associated debt service, which is funded separate from an employer's contribution rate, would result in tangible budgetary resources; however, such an action would have no effect on employer contributions, or the funded status of the PERS system, as debt service payments are made apart from employer contributions.

Cash Side Account Contributions

With side accounts being available to employers since being authorized by the Legislature in 2002, a question arises as to why employers, especially state agencies, are not using available reserves to make side account contributions. One simple answer is that employers lack the resources to make additional cash contributions. Other reasons may include:

- Because of the issuance of POBs, cash side accounts contributions are unnecessary.
- Operating budgets are sufficient to fund employer contributions.
- Employers can hold and maintain control of internal cash reserves for PERS costs.
- PERS' minimum deposit and administrative fee requirement make small or numerous side accounts unattractive to employers.

There are additional arguments specific to state agencies, which include:

- Disaggregating the UAL by individual state agency, which is currently not being done, would be too complicated and expensive to implement.
- Accounting for individual state agency side account contributions would be too complex.
- Cash-funded side accounts would add complexity to the state and agency budget process.

On closer examination, the support for each argument is tenuous.

POB and cash side account contributions are discrete choices, independent of one another. In other words, an agency that has issued a POB is ***not*** precluded from establishing a side account with cash. Some entities, such as Lottery Commission and State Accident Insurance Fund presumably have the balance sheet strength to make cash side account contributions. Additionally, cash contributions where available and prudent, eliminate the speculation risk posed by the issuance of POBs.

The standard method for funding employer contribution costs is through annual or biennial operating budgets; however, funding PERS employer costs out of existing operating budgets underestimates the trajectory of PERS employer rate increases into the future. Employer rates will increase over the next two to three biennia, if all assumptions are met, until the current rate collar is fully implemented. Therefore, fewer resources will be available to fund other services. Pre-funding even a portion of future employer contributions rates, while certainly not easy, would partially alleviate the increasing pressure on future operating budgets.

Setting aside reserves to fund future PERS costs is prudent under any circumstance, even if those reserves are held apart from side accounts. The issues with holding an "internal side account" reserve, however, the funds are: (a) not held in trust for the exclusive payment of PERS costs; (b) not accounted in actuarial valuations; (c) not subject to a determined schedule of amortization over time ; (d) are able to be easily re-deployed to other, non-PERS exigencies; (e) potentially subject to re-appropriation by the Legislature, if held by a state agency; and (f) investment returns that may be less than those earned by the OIC on the PERS Fund. At present, there is no known instance of a state agency holding internal cash reserves to fund future PERS payments.

The PERS Board, at the spurring of the Legislature, has recently made administrative changes to ease some of the restrictions on establishing side accounts to drive greater side account participation, as discussed below under *Administrative Changes and Costs to Maintain a Side Account.* In addition, for smaller agencies, there could be the opportunity to pool assets in order to meet any minimum depository requirements set by the PERS Board.

Detailed actuarial reports have long been available to PERS employers, with the exception of individual state agencies, which receive a single report. While even the smallest of jurisdictions has access to information such as their individual employer rates, UAL, and side account balance, state agencies are provided no individual UAL or side account balance information. Without this basic information, state agencies are at a disadvantage for making cash side account contributions. While there may be an actuarial and administrative cost to disaggregating the state agency UAL, this information would be necessary for individual state agencies to know their UAL and be able to budget cash side account contributions according. Under such a scenario, the state's POB balance may also need to be disaggregated on an agency-by-agency basis, which would be possible as these same agencies are paying the debt services on the POBs.

Disaggregating the state agency UAL would have no practical impact on employees, who can, and frequently do, move seamlessly between PERS employers throughout state and local government. The actuarial tracking and PERS accounting for such movement of employees has long been accounted for within the PERS system. This would be no different for a state agency employee moving between a state or local government employer. Disaggregating the UAL for state agencies, and tracking separate side accounts for individual state agency employers, would conform to the current rate setting construct for all other, non-state agency PERS employers, placing all PERS employers on an equal footing.

The disaggregation of the state agency UAL would have the additional benefit of understanding, for example, the UAL of public universities and non-traditional state agencies, such as the Lottery Commission and State Accident Insurance Fund. By providing this information, these entities will have a mechanism for making cash side account contributions; however, PERS, the agency, notes that making side account deposits may not require disaggregating state agencies UAL.

Any additional complexity added to state budgeting must be weighed against the benefit of providing agencies with the knowledge of their share of the total state agencies UAL, thereby allowing them to make more informed decisions as to how to budget over the short and long-term. The invoicing and accounting of PERS actual costs is already done on an agency-by-agency basis each month by the Department of Administrative Services. Disaggregating the state agency UAL would therefore bring better alignment between the budgeting of the UAL and the payment of actual costs.

Legislative Initiative

A major initiative of the 2017 session was to find ways to reduce and control future government costs. A legislative workgroup was convened to evaluate cost containment options and recommend changes that could be put into place to reduce costs beginning in the 2019-21 biennium. SB 1067 (Chapter 746, Oregon Laws 2017) was one product of the workgroup and included several provisions designed to prevent and reduce future costs and institute prudent budget and financial practices.

The legislative initiative calling for greater side account participation by **state agencies** will challenge convention and necessitate the development of a coherent strategy for implementation by the Executive and Judicial branches of government. As a preface to this effort, the state agency UAL needs to be disaggregated so that, like School Districts and Independent Employers, various state agencies can see their share of the state agencies UAL quantified so they can undertake informed actions related to possible **cash** side account contributions. The ramifications of state agency side account contributions include the potential to reduce ending cash balances, reduce General Fund reversions, increase fees, reduce other types of transfers to the General Fund for general governmental use (i.e., reappropriation of excess agency funds), to name a few. The ability to use federal funds for side account contributions also needs to be legally and definitively resolved. Administrative changes may also be required by the PERS Board to ease such contributions. Finally, the misconception that because an entity, such as the state, has chosen to issue a POB, no further side account deposits are necessary must be dispelled. Many state agencies, such as possibly the State Accident Insurance Fund and the Lottery Commission, and likely many others, possess the financial means to make cash side account contributions, but only after first being provided their individual UAL responsibility so as to make an informed financial decision. The following table summarizes the SB 1067 changes specific to PERS side accounts, among other non-PERS changes.

Table G: SB 1067 Side Account Changes

SB 1067 Change	Legislative Intent
Modifies the law regarding PERS side accounts.	Prior to SB 1067, statute required each lump-sum payment to be deposited into a new side account. SB 1067 allows employers to make additional deposits into existing side accounts.
Requires the Governor's budget proposal to include recommendations on funds available for additional side account deposits.	A new requirement to encourage side account deposits by state agencies.
Ensures that communications regarding the PERS unfunded accrued liability include information on side accounts.	Seeks to ensure an accurate statement of the UAL, by ensuring that side accounts balances are taken into account when the UAL is reported.

Recent Administrative Changes and Costs to Maintain a Side Account

The cost for an employer to establish and maintain a side account has two components: (a) administrative costs and (b) investment expenses (discussed under *Investment Returns* section). There is also a minimum deposit requirement. Historically, PERS has charged an administrative fee of $2,500 for the first year to establish a side account and a $1,000 fee each year thereafter; however, the PERS Board recently lowered the fees to $1,500 and $500, respectively, which are well within the statutory limitation.

Under previous Oregon Administrative Rule (OAR), the PERS Board required a minimum side account deposit of the lesser of $1 million or 25 percent of the individual employer's UAL; however, the Board just lowered the minimum deposit to the lesser of $250,000 or 25 percent of the employer's UAL for each new side account. There is no minimum payment required to add funds to an existing side account. This reduction may spur additional side account contributions.

Summary

Side account contributions may be viewed as a sound financial practice. Side accounts have played, and may continue to play, a role in the funding of an employer's PERS contributions and have a material impact on lowering employer contribution rates for participating employers for those employers that have made sound POB issuances and/or cash side account contributions. The injection of additional funding into the PERS system in anticipation of higher future employer contribution rates has been, and will continue to be, a viable option to address funding of the UAL.

In a challenging investment market (i.e., investment returns exceeding the cost of debt service), the financial viability of issuing additional pension obligation bonds appears limited, thus making **cash** side account contributions the preferred method of funding. There is also the fact that eventually POB-funded side accounts will be fully amortized and no longer serve as an offset to employer contribution rates.

The Legislature's push to encourage greater **cash** side account participation and contributions at both the state and local level will play out over the course of the next few biennia, beginning with state agencies in the 2019-21 budget. Recent administrative changes by PERS will make side account contributions easier. Providing detailed actuarial reports for state agencies would conform to the current rate setting construct for all other, non-state agency PERS employers and place state agencies on an equal footing. Such information is viewed as important in order for state agencies to begin making cash side account contributions.