



Oregon

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TO: Members of the Committee
Joint Committee on Ways and Means Subcommittee on Capital Construction
FROM: Kevin Olineck, Director
SUBJECT: **Rate Collaring Basics**

The collar is a rate-smoothing method that limits biennial rate increases/decreases and spreads large rate changes over multiple biennia.

- The collar is applied to “base rates” – Normal Cost + UAL
- The collar is NOT applied to:
 - Side account rates
 - Transition liability/surplus rates
 - Pre-SLGRP liability/surplus rates
 - Retiree healthcare rates

The size of the collar (the amount of rate change allowed in a biennium) is based on two things: the current base rate of the independent employer or the pool in which the employer participates; and the current funded status of the independent employer or the pool in which the employer participates.

- At a funded level between 70% and 130%, the collar is **the greater of** 3% of payroll, or 20% of the employer or pool’s current base rate.
- At funded levels below 70% or above 130%, the collar limitation increases incrementally until it doubles at funded levels of 60% or below, or 140% or above.
 - For a 3% collar, the increments are 0.3% of payroll, e.g.:
 - At a funded level of 68%, the collar is 3.6%
 - At a funded level of 66%, the collar is 4.2%
 - At a funded level of 64%, the collar is 4.8%
 - At a funded level of 62%, the collar is 5.4%
 - At a funded level of 60% or less, the collar is 6%
 - For a 20% collar, the increments are 2% of the current base rate, e.g.:
 - At a funded level of 68%, the collar is 24%
 - At a funded level of 66%, the collar is 28%
 - At a funded level of 64%, the collar is 32%
 - At a funded level of 62%, the collar is 36%
 - At a funded level of 60% or less, the collar is 40%

The collar is calculated on Normal Cost + UAL, but only applied to the UAL rate. This prevents under-collection of Normal Cost contributions, which would lead to an increase in UAL.

HOWEVER – the UAL rate is not necessarily the previous UAL rate minus the rate collar. The collar is used to calculate the new base rate, then the actual normal cost rate is subtracted to arrive at the new UAL rate. If the normal cost rate increased from the previous biennium, the UAL rate will be reduced by MORE than the collar amount.

Example:

2017-19 School District (SD) T1/T2 base rate: 13.28% NC + 12.15% UAL = 25.43%

Calculation of collar for 2019-21 advisory rates (using 2016 valuation because SD pool was below 70% funded so you can see how the incremental increase works):

- $25.43\% + 3\% = 28.43\%$
- $25.43\% * 1.20 = 30.52\%$
- $30.52\% > 28.43\%$, so the collar begins at 20% of the current base rate
- As of the 2016 valuation, the SD pool was 68% funded, so the collar limit increases to 24% (20% plus 2% for each percentage point below 70%)
- $25.43\% * 24\% = 6.103\%$

Final size of SD pool rate collar: 6.11% (Milliman rounds up when calculating the collar)

- **Collared** 2019-21 advisory base rate for the SD pool: $25.43\% + 6.11\% = 31.54\%$
- **Pre-collar** 2019-21 advisory base rate for the SD pool: **35.49%**
- **Reduction** due to collar: $35.49\% - 31.54\% = 3.95\%$

Application of the collar to 2019-21 advisory rates for the SD pool:

- Actual collared 2019-21 advisory rate for the SD pool: 31.54%
- Advisory 2019-21 normal cost rate for the SD pool: 14.04%
- Advisory 2019-21 UAL rate for the SD pool: $31.54\% - 14.04\% = 17.50\%$
- Previous UAL rate increased by collar: $12.15\% + 6.11\% = 18.26\%$

The final collared UAL rate is less than the previous UAL rate plus collar because the collar calculation includes the normal cost rate, which increased from the previous biennium.

Sincerely,



Kevin Olineck,
Director