Oregon

Kate Brown, Governor

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Statewide Accounting and Reporting Services
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Co-Chair Senator Girod & Co-Chair Representative Holvey
Joint Committee On Ways and Means
Subcommittee On Capital Construction
900 Court Street NE
Salem, Oregon 97301

Re: Allocation of Net Pension Liability to Public Universities

Statewide Accounting and Reporting Services (SARS), which is part of the Chief Financial Office at DAS, is responsible for allocating the net pension liability, pension expense, and related balances to the applicable state financial reporting funds and entities, in accordance with generally accepted accounting principles (GAAP). This includes providing the proportionate share of these amounts to the public universities. The state and public universities report their proportionate share within their audited financial statements.

GAAP requires that a cost-sharing multiple employer plan (which PERS is) allocate the net pension liability, pension expense, and related balances, which are largely determined by the plan with assistance from a qualified actuary, in proportion with how the plan expects entities will contribute to the plan in the future. This is referred to as the "projected long-term contribution effort." For example, if the expectation is that a city's workforce will greatly expand, its proportion would grow. PERS considers all state agencies, including public universities, to be a single employer, and provides that information to SARS. As previously noted, SARS performs its own allocation on the information provided from PERS.

The allocation completed by SARS is based on the pension plan contributions (excluding any amounts for employer "pick-up") from the most recently completed fiscal year (e.g., for the fiscal year 2018 allocation, SARS used the fiscal year 2017 pension contributions) for each state financial reporting fund, public university, and other covered semi-independent state agency. While GAAP requires that the plan allocate the net pension liability, pension expense, and related balances based on the projected long-term contribution effort, there is no such requirement for the internal allocation performed by SARS. Therefore, the allocation SARS performs is based on recent history rather than expectations for the future. It is our understanding that our internal allocation is consistent with other states.

It should further be noted that due to the length of time needed to obtain this actuarial information, GAAP allows for a lag of up to one year between the date the net pension liability is measured and when it is reported within the government's financial statements. Most governments, including the state, have taken advantage of this one-year lag. As a result, the net pension liability reported by the state in its June 30, 2018 audited financial statement was measured at June 30, 2017. Further, as allowed by GAAP, the net pension liability was based on the December 31, 2015 actuarial valuation that was "rolled forward" to June 30, 2017.

With the above information as background as to how their proportion of the net pension liability, pension expense, and related balances are determined, the net pension liability that was reported in the public universities' June 30, 2018 audited financial statements is as follows:

University of Oregon - $298,605,823.66
Oregon State University - $293,881,484.98
Portland State University - $140,322,208.45
Western Oregon University - $35,460,694.30
Southern Oregon University - $30,119,827.20
Eastern Oregon University - $16,688,719.35
Oregon Institute of Technology - $15,677,874.72
Total of the public universities - $830,756,632.67

This is based on an overall net pension liability that SARS allocated of $3,727,045,541, and an overall plan net pension liability of $13,480,037,809.

The Governmental Accounting Standards Board (GASB) promulgates GAAP for state and local governments, and the objective of their accounting standard which became effective in fiscal year 2015 that required the reporting and allocation of the net pension liability and related balances and activities was to improve the information provided by state and local governmental employers about the financial support for pension plans administered through certain trusts. As a result, GAAP shifted from a funding-based approach to an accounting-based approach with respect to accounting and reporting pension activities. According to GASB, it "crafted the accounting standard with the fundamental belief that funding is a policy decision for elected officials to make as part of the government budget approval process." Therefore, what is reported by the state or public universities within their financial statements should not be interpreted to be their share of the pension unfunded actuarial liability (UAL). As the UAL is a measure of pension funding, which is outside the scope of accounting standards, one should not rely upon the accounting records to make a determination on how the UAL would be attributed to the individual units of state government.

Please contact me with any questions.

Regards,

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