

OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



Side Account Expiration

Joint Committee on
Ways and Means
Subcommittee on
General Government

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Definition of a side account

Lump-sum payment to prepay all or part of an employer's pension liabilities.

Side account is attributed solely to the employer.

- Held separately from other employer reserves.
- Cannot be withdrawn once deposited.

Money is invested in the PERS Trust.

- Subject to the same earnings and losses as all other investments in the Oregon PERS Fund.

Establishing a side account increases the assets of an employer.

Side account balance is used to calculate the side account rate offset.

Side account deposit

Deposit must be greater than or equal to the **lesser** of:

- \$250,000
- 25% of unfunded actuarial liability (UAL)

Two options for initial side account offset rate calculation:

- Valuation calculation
- Actuarial calculation

Valuation calculation

Side account balance determined in first valuation performed following the side account deposit.

The rate offset will be effective on the next 7/1 following the **publication** of the valuation report.

- Side account deposited on 10/18/2024.
- Will be reflected in the actuarial valuation report as of 12/31/2024.
- Valuation report will be published in the fall of 2025.
- Rate offset calculated will be effective 7/1/2026.

No additional cost to the employer - no need to contract with Milliman to perform this calculation.

No flexibility in terms of rate offset effective date or term over which the offset is applied.

- Must amortize over 20 years.

Employer does not know what the initial rate offset will be before making the side account deposit.

Actuarial calculation

Employer must sign a contract with Milliman.

- Pay \$1,000 for the initial calculation.
- Further scenarios can be modeled for \$250 each.

Employer can select the date on which rate offset begins.

- Must allow 30 days from the date of request for rate offset to begin.
- Must **make** side account deposit before rate offset start date.
- Offset must begin on the first day of a calendar month.
- First offset date must be no more than twelve months after the next month available.

If side account deposit is \$10 million or more:

- Employer can elect to apply the rate offset over a shorter period of time.
- 20 years is the standard.
- Can elect 6, 10, or 16 years.

Documentation is provided to the employer prior to making the deposit.

Required for payoff of transition liability (if applicable).

Calculation of side account rate offset

Reduces employer net contribution rates for specified period of time.

Calculated similarly to UAL contribution rate.

Annuity factor is calculated based on:

- Remaining period of amortization.
- Assumed interest rate (currently 6.9%).

Side account balance is divided by this annuity factor.

This quotient determines the dollar amount to be charged in the upcoming period.

The dollar amount thus determined is divided by the valuation payroll projected for the period to determine the offset rate.

Methods to fund a side account

Cash on hand

- Many employers divert operating funds in order to prepay PERS liabilities.
- This can be an effective use of revenue that is not expected to persist.
- Employer Rate Projection Tool may aid in forecasting future contributions and the impact of establishing a side account.

Employer Incentive Fund (EIF)

- EIF matches can enhance side account deposits by up to 25%.
- Side accounts must be funded by cash on hand to receive a match.
- A new application phase is in process.
 - Early application for employers whose UAL exceeds 200% of payroll began 4/1/25.
 - Application open to all employers beginning 7/1/25.
 - Approximately \$40 million available for match.

Pension Obligation Bonds

Pension Obligation Bonds (POB)

Municipalities can issue debt in order to prepay pension liabilities.

Financial professionals advise the municipality (issuer) to structure the bond to best meet its financing needs.

Issuer must submit information to Oregon State Treasury for review, per Senate Bill 1049 (2019).

Proceeds received by the issuer depend on the market demand for fixed income securities at the time of issue.

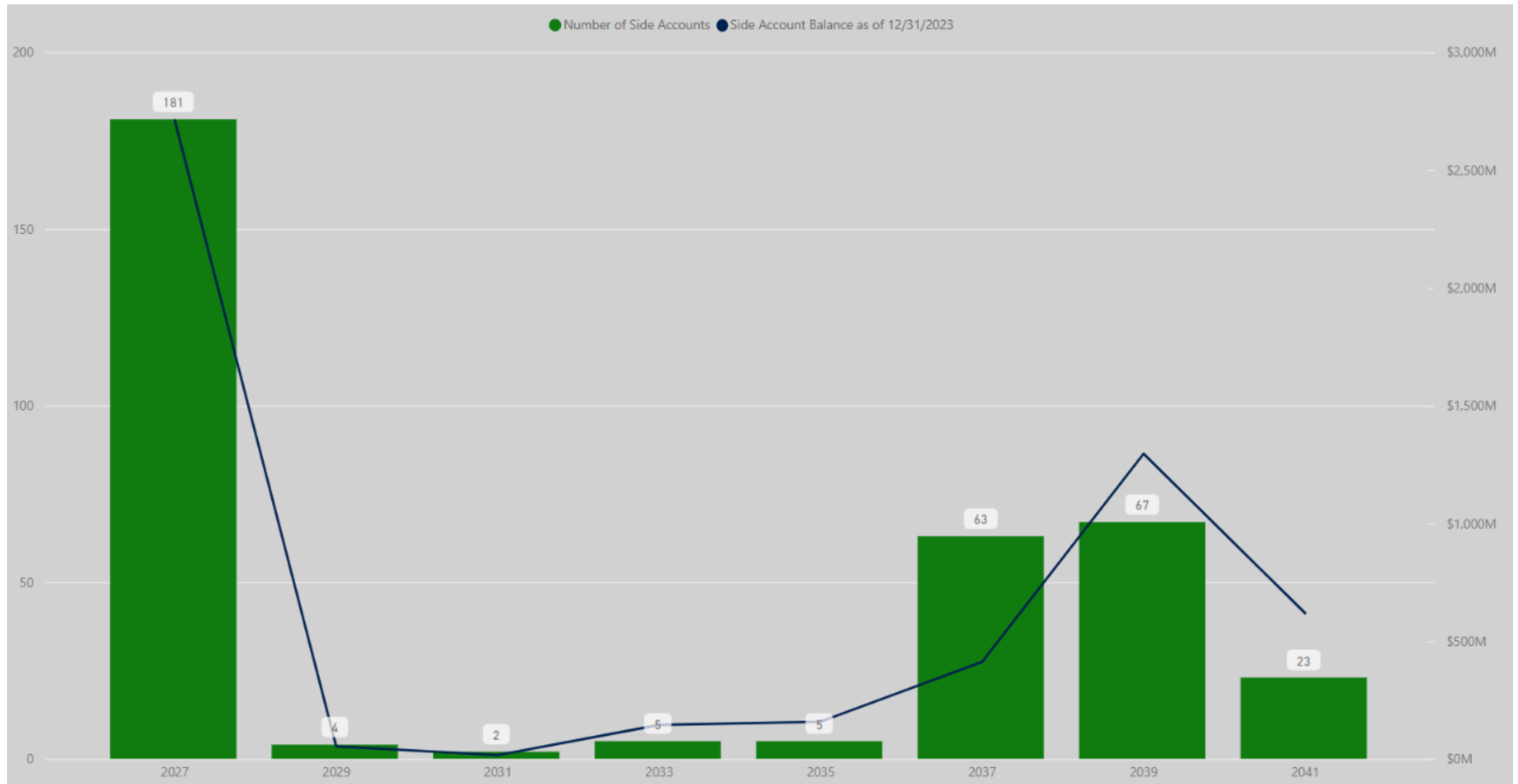
The issuer incurs the obligation to pay interest (coupon payments) until maturity and the face value of the bond at maturity.

Coupon payments and face value for POB are specified at issue.

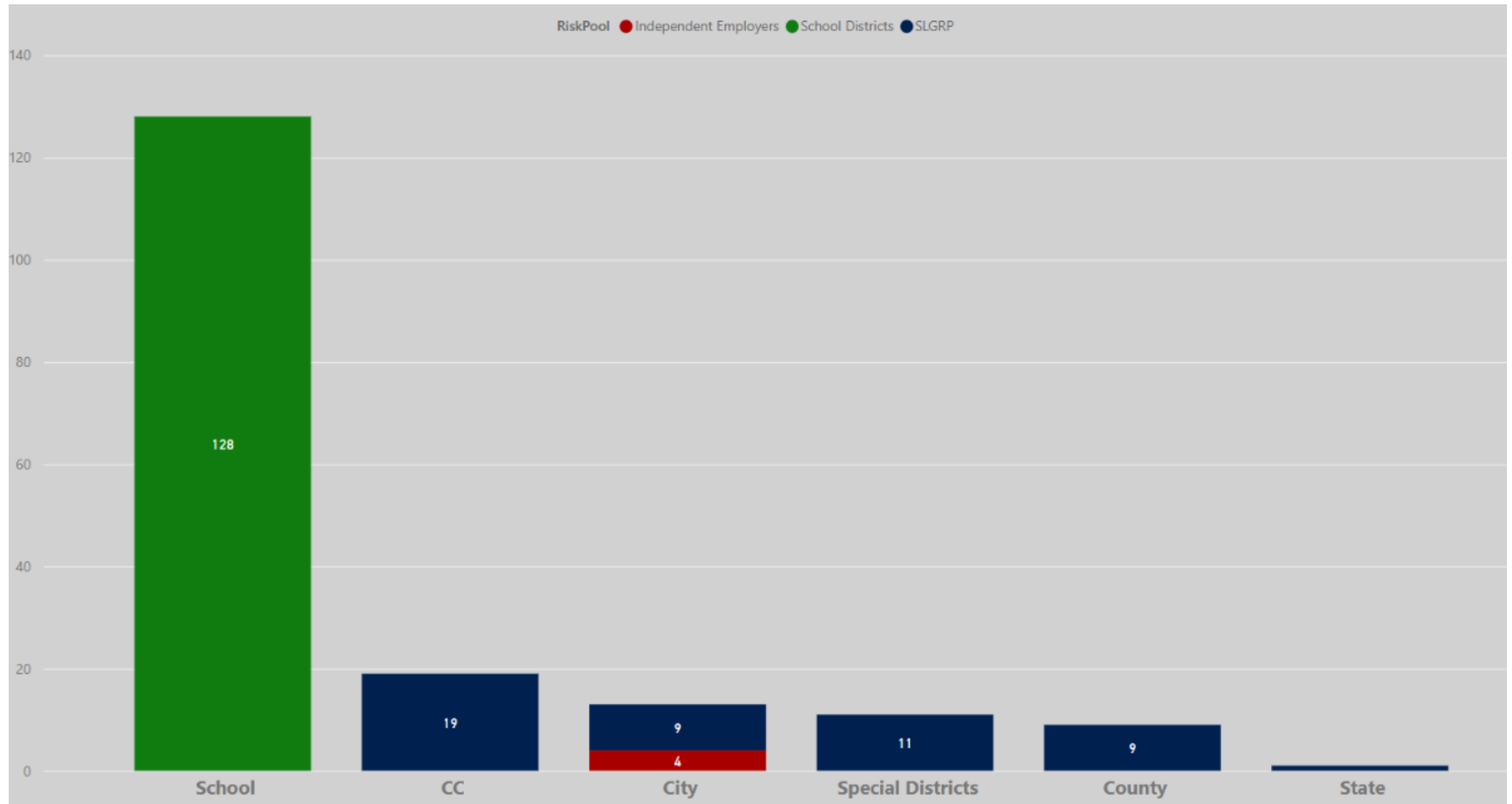
Many side accounts funded by POBs scheduled to amortize 12/31/2027.

A [*Guide to Understanding Pension Obligation Bonds*](#) is available on the PERS website.

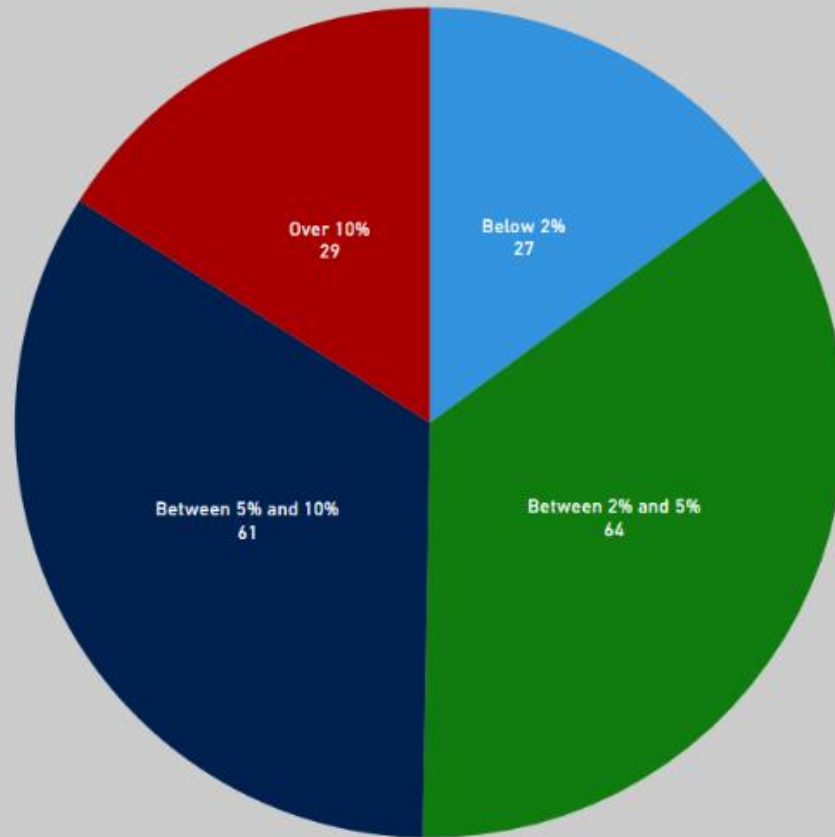
Expiration of side accounts by year (2027-2041)



2027 Expirations by employer type



2027 Expirations by 2025-27 offset rate



ERNO	Name	Expiring Rate
4326	Harney County School District #3	-85.93%
3579	Lincoln County School District	-49.46%
3319	South Umpqua School District	-36.56%
4166	Yamhill-Carlton School District #1	-33.38%
3349	Winston-Dillard Schools	-28.59%
4331	Molalla River School District	-22.95%
4329	Gervais School District #1	-21.90%
2902	Treasure Valley Community College	-19.42%
4335	Milton-Freewater Unified School District #7	-16.80%
2904	Lane Community College	-16.57%
4291	Dayton Public Schools	-16.52%
4342	North Santiam School District #29J	-16.30%
3729	Jefferson School District #14Cj	-16.24%
4306	Amity School District	-16.23%
3902	Tillamook Public Schools	-15.88%
3931	Pendleton School District #16R	-15.88%
2901	Blue Mountain Community College	-15.82%
2998	Southwestern Community College	-15.46%
3618	Sweet Home School District #55	-14.98%
3506	South Lane School District	-14.89%
4279	St Helens School District #502	-14.86%
3818	Portland Public Schools	-14.82%
3179	Clatsop County School District #1C	-14.77%
3353	Sutherlin School District #130	-14.70%
3283	Brookings-Harbor School District #17C	-13.97%
2905	Mt Hood Community College	-13.90%
4135	Newberg School District #29Jt	-13.53%

Expiration of side accounts

Key considerations when planning actions to resolve:

- Cash-flow concerns for employers using pension obligation bonds.
 - Pension obligation bonds require debt servicing until maturity date.
 - These costs are at least partially covered by reduced PERS' contributions due to rate offset.
- Challenges implementing mid-biennium rate changes.
 - PERS is structured to make changes to contribution rates only at the beginning of each biennium (July 1 of odd-numbered years).
- Desire to not “over withdraw” side account balances.
 - Side account deposits become part of the PERS Trust.
 - If this balance becomes negative, there are financial and legal challenges to treatment of the account assets.

Expiration of side accounts

Proposed method to expire side accounts – option 1

- For the 2025 valuation, scheduled to be released in October 2026, consulting actuary will determine the 2027-29 biennium contribution rate for each employer.
- The contribution rate will **not** reflect any offset for side accounts expiring 12/31/2027.
- Side account balance as of 12/31/2026 (including earnings) calculated in April 2027.
- Employer will have the option to convert residual balance into a new side account, provided that:
 - 12/31/2026 side account balance is at least \$500,000
 - and
 - Employer notifies PERS of this intention on or before 5/31/2027
- New side account deposit amount and offset rate will be shared on 11/1/2027. This offset rate will apply effective 1/1/2028 and run for 20 years.
- There will be no offsets between July 1 and October 31, 2027, which may negatively impact cash flows if there are bond payments during this period.

Expiration of side accounts

Proposed method to expire side accounts – option 2 (default)

- If no new side account is selected, 30% of the 12/31/2026 side account balance will be credited to the employer's PERS contribution account.
- This credit will be available to the employer on 6/30/2027 and will remain until extinguished by subsequent contributions due.
- On 7/1/2027, new contribution rates based on the 2025 valuation will apply. These rates will include no side account rate offset for accounts expiring on 12/31/2027.
- In October 2027, the remaining side account balance effective 6/30/2027 will be calculated. This balance includes the effect of the credit made available 6/30/2027.
- A credit reflecting this final balance will be available no later than 11/1/2027.
- No side account offsets will apply to payroll reported after this date.
- Each of the two credits (June 30 and November 1) will be applied until it is extinguished.

Side accounts ending in 2027

The fine print

1. 12/31/2026 side account balances with 2026 earnings will be determined and confirmed at the spring 2027 PERS board meeting when earnings are adopted.
2. PERS will calculate an employer statement pension credit of 30% of the value of the side account balance determined in (1) above.
3. The statement credit from (2) will be credited to employers as of 6/30/2027 to apply to future pension invoices.*
4. The applicable side account rate offset will be shut off as of 7/1/2027 so that no further benefit can be derived from the side account.
5. In September, PERS will calculate earnings through 6/30/2027 and apply those to the remaining side account balance as of 6/30/2027 after amortization that actually occurred during the period of 1/1/2027–6/30/2027.
6. In October, PERS will complete the final true-up, and the net amount of the side account balance as of 6/30/2027 — including mid-year earnings, less the 30% of the 12/31/2026 balance already credited — will be credited to employer statements as a pension credit.*

*Employers may also have the option to convert their remaining balance as of 6/30/2027 to a new side account, in lieu of a statement credit, which will require waiting until we are able to apply 6/30/2027 earnings in September.

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Thank you

