



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: Treatment of Unfunded Actuarial Liability for Employer 1000 (State Agencies)

At the February 22, 2019 meeting of Capital Construction, there was some discussion of the document entitled: "Summary of Pension Unfunded Accrued Liability (UAL) as of December 31, 2017", where the value for Employer 1000, State Agencies was shown as one amount and not broken down between the entities that make up Employer 1000. Of particular interest to committee members was the UAL amounts attributable to Universities. The following sets out the historical context by which the decision was made to show the amount at the highest cumulative level and, hopefully, addresses the disconnect between how PERS versus other agencies view the treatment of State Agencies with this reporting.

Prior to 2004, universities reported under a single entity: Oregon University System. That entity was considered a state agency since its inception in 1946. All state agencies have historically been treated as a single employer for PERS purposes.

In 2004, to improve cost allocation and reporting clarity, the individual universities were set up on the PERS reporting system under separate employer numbers and began reporting payroll for their own employees. That change was strictly a bookkeeping one and had no effect on their status as state agencies or any other aspect of their treatment under PERS.

In 2013, legislation was passed that allowed public universities to create their own governing boards and provided that public universities were no longer state agencies for statutory or constitutional purposes (ORS 352.033). However, during discussions between university officials and PERS, PERS advised that university employees would no longer be eligible for the RHIPA healthcare subsidy, nor would the universities continue to receive rate relief from the state's side account and could end up paying substantially higher rates as non-state employers. Based on those discussions, universities sought and obtained an amendment to ORS 352.138. ORS 352.138(6)(a) provides that ORS chapters 238 and 238A apply to universities "under the same terms as they apply to the state." Under this provision, PERS has continued to treat public universities as state agencies.

It is important to note that, while we recognize that DAS regards agencies that report payroll through OSPS as different from those that do not (such as the universities and "semi-independent" state agencies like SAIF and Lottery), PERS makes no such distinction. For PERS purposes, all state agencies are the same regardless of whether they report through OSPS or are part of DAS's budgeting process. PERS could, by working with DAS, provide an estimate of each individual state agency's share of the UAL by using a proportionate share of agency's

payroll to the overall payroll. However, this would be on a prospective basis only and, as noted above, be an approximation only.

To the question of whether universities could be reported separately from other state agencies for UAL tracking purposes in the future, the short answer is yes. However, those numbers might not mean what interested parties assume they would, and that's because of pooling.

Pooling involves sharing assets and liabilities and having funded levels and UAL determined for the pooled group as a whole. In other words, pooled employers do not have their own, discrete UAL; they share the pool's UAL with the other pool members. When we show a UAL for an individual pooled employer, that UAL is simply a portion of the pool's UAL allocated to the individual employer at the same percentage as the employer's share of the pool's payroll. In other words, an employer that has five percent of the pool's payroll is allocated five percent of the pool's UAL. The individual UAL number in no way reflects the specific employer's actual demographic or financial experience.

Not only are state agencies a "pool" in themselves, due to reporting all individual agencies under that single banner; state agencies are also pooled with other entities. ORS 238.229(1)(b) provides that "the [PERS] board shall group together all community college districts and the state and treat the community college districts and the state as a single employer for actuarial purposes." That provision has been in effect since at least the 1990s, and is the reason state agencies and community colleges share a "pre-SLGRP liability" rate.

Since 2002, state agencies have participated in the State and Local Government Rate Pool (SLGRP), which includes all state agencies, all community colleges, and about two-thirds of PERS-participating local governments. As described above, assets (other than side accounts) and liabilities are shared by all pool members, and a UAL is developed for the pool as a whole and allocated to individual employers proportionate to payroll. In other words, even the state agencies group doesn't have a UAL developed specific to state agency employees and state agency financial experience. It simply has a share of the SLGRP's UAL. Reporting separate UALs for universities or any other subcomponent of the state agencies group would be done exactly the same way. It would not be reflective of the UAL specific to universities, or of any difference between the actuarial experience of the universities separate from other state agencies, because there isn't one. They share a UAL with the other employers in the pool (state agencies, CCs, cities, counties, and special districts).

Finally, all employers are pooled under OPSRP, so the OPSRP UAL is developed for the entire system as a whole.

Sincerely,



Kevin Olineck,
Director