

## ***Public Employees Retirement System side accounts***

Public employers that participate in the Public Employees Retirement System (PERS) can make lump sum payments to the system to pre-fund employer obligations – these payments are typically made after issuing pension obligation bonds or savings from internal operations.

In turn, PERS establishes a separate account for the lump sum amount and amortizes the account to offset contributions made over a specified period. Once these payments are paid into the system, the employer cannot direct how the funds in the separate account are to be used within the system, or request a refund of those funds. According to PERS, as of December 2008, 142 employers have established such “side” accounts; the majority of participating employers are school districts, followed by community colleges. Thirty-four employers have multiple side accounts.

[Source: H.B. 3401 Explanation-- “Summary of Legislation—2009,” page 83. See at: <http://www.leg.state.or.us/comm/commsrvs/09SummaryOfLegislation.pdf> ]

NOTE: The side-accounts are long-term debt for those PERS employers that chose to borrow. **The annual payments to service the side-account debt increase each year, based on the assumption that PERS employers will expand the amount of payroll expenses by approximately 3.75% annually.** The idea is that as the cost of side-account bonds increases, so will the employer’s payroll expenses; thus, the percentage of payroll allocated for the side-account debt will remain approximately constant. If the growth in payroll were to flatten or even decrease, the cost per employee for side-account debt would increase accordingly.

The side-account bonding revenues were placed in the Oregon Public Employee Retirement System Fund (OPERF), where they were invested along with the rest of the OPERF. When investment returns are good, the side accounts generate more than the cost of the debt payments and the excess lowers the employer’s PERS rates. When investment returns are down, as they were in 2008, the returns can be less than the side account debt payments. In that event, the employer with low-performing side accounts is responsible for paying the additional side-account costs, plus the increasing PERS employer rates. Many PERS employers are currently in that unenviable situation. Side-account debt is like a family borrowing on home equity and investing the loan proceeds into high yielding mutual fund—a dangerous strategy, especially when done with other people’s money. Rep. R.