

Side Accounts by the Numbers

What Are Side Accounts?

When an employer makes a lump-sum payment to prepay part or all of its pension unfunded actuarial liability (UAL), the money is placed in a special account called a "side account." This account is attributed solely to the employer making the payment and is held separate from other employer reserves.

As of December 31, 2010, 142 employers have established side accounts.

Employer Type	# W/Side Accounts
Independent Locals (not a member of a pool)	4
State Agencies (all, including OUS)	1
Pooled Counties	8
Pooled Cities	9
Pooled Special Districts	7
Community Colleges	17
School Districts	96

As of December 31, 2010, 34 employers have multiple side accounts: one city, one special district, two community colleges, and 30 school districts.

As of December 31, 2010, side account assets totaled \$5,579.2 million.

Side Accounts by Employer Type as of December 31, 2010	
Employer Type	Balance (Millions)
Independent	\$88.5
State Agencies	\$2,005.0
Pooled Counties	\$63.6
Pooled Cities	\$50.5
Pooled Special Districts	\$78.9
Community Colleges	\$421.8
School Districts	\$2,870.1

How Do Side Accounts Work?

Side accounts are amortized over the same time period as the employer's associated UAL, providing the employer with a reduction of its employer rate. The goal is for the side account to provide rate relief to the employer until the associated UAL is paid off. Side accounts are re-amortized every two years, taking into consideration how much of the side account has been used and what earnings have been credited. The rate offset from the side accounts is then adjusted based on the re-amortization.

Average Side Account Rate Offset 2005 -2013	
Rate Period	Average Rate Offset (% of Payroll)
2005 - 2007	-4.54%
2007 - 2009	-6.71%
2009 - 2011	-7.20%
2011 - 2013	-5.11%

How Are Side Accounts Funded?

Most employers with side accounts issued pension obligation bonds (POBs) and provided the bond proceeds to PERS as a UAL lump-sum payment. A few employers funded their UAL lump-sum payments from other sources, such as savings from internal operations.

The State of Oregon issued \$2,084 million in POBs in 2003 to fund a side account. As of December 31, 2010, the State's side account balance was \$2,005 million and the principal balance on the State's POBs was \$2,017 million.

Historical Side Account and POB Balances 2004 - 2010		
Calendar Year	Side Accts (millions)	Outstanding POBs (millions)
2004	\$5,556	\$5,516
2005	\$6,667	\$6,202
2006	\$7,248	\$6,164
2007	\$7,658	\$6,249
2008	\$5,135	\$6,187
2009	\$5,490	\$6,109
2010	\$5,579	\$5,999

What Earnings Do Side Accounts Receive?

Side accounts are invested in the PERS Fund and receive the Fund's actual earnings or losses. These earnings or losses are posted to side accounts at the end of each year.

Average Side Account Earnings 2004 to 2010	
Calendar Year	Average Earnings/Loss
2004	13.68%
2005	12.80%
2006	14.98%
2007	9.46%
2008	-26.75%
2009	18.47%
2010	12.13%

What Administrative Costs Are Side Accounts Assessed?

Administrative costs are limited by statute. Within these statutory limits, PERS assesses \$2,500 per side account in the first year and \$1,000 annually thereafter, regardless of the size of the side account.

Why Pre-Pay UAL Contributions?

Pre-payment of UAL contributions is an alternative to the traditional funding option of paying off UAL obligations over time as a part of the employer's contribution rate. There are potential advantages to this, but there are also potential risks. The primary advantage is that the employer can borrow at a low interest rate and offset a UAL obligation that is accruing at a higher rate. This arbitrage can benefit the employer when side account earnings exceed the bond service rate. However, if side account earnings are less than the interest rate being paid on the POBs, the employer may end up paying more in POB service costs than it receives in rate relief from its side account.