



BOARD OF COMMISSIONERS

AGENDA REQUEST & STAFF REPORT

MEETING DATE: September 24, 2025

SUBJECT: Possible establishment of a PERS side account

RECOMMENDED MOTION:

Move to approve the establishment of a PERS side account using funds from the PERS Reserve Fund in the amount of \$5 million and accepting a 25% match of \$1.25 million from the State of Oregon.

BACKGROUND AND POLICY IMPLICATIONS:

Deschutes County was eligible to apply for a 25% match from the Oregon Public Employees Retirement System (PERS) Employer Incentive Fund during the phase two application process for setting up a new side account. The County's net pension unfunded actuarial liability (UAL) as a percentage of payroll was 162% as of the December 31, 2023 actuarial valuation with a combined payroll valuation of \$106,412,916. As an employer of the State and Local Government Rate Pool (SLGRP), the County's funded status was 70% as of December 31, 2023. These criteria enabled the County to meet the eligibility requirements for a phase two application.

On July 1, 2025, the County applied for a 25% match if a \$5 million side account was created. There was no obligation from the application. The County was successful in its application and is seeking the Board's approval to establish a new PERS side account using funds from the PERS Reserve Fund in the amount of \$5 million to receive the \$1.25 million match from the State.

To receive this match, the County must deposit funds into a side account by March 31, 2026, to be eligible for a side account adjustment to PERS rates beginning July 1, 2027. The County is under no obligation to contribute a specific amount of money or any money at all; the award from the Employer Incentive Fund is only an offer to participate in the match funding.

In total, the State has \$39 million allocated in the Employer Incentive Fund. There were 41 applications submitted, and 36 entities were approved before funding ran out. By law, PERS approves applications in the order they are received. Other counties accepted in phase two included Jefferson, Wasco, and Jackson.

Current Side Accounts

The County already has two separately allocated side accounts as summarized below:

Account #5121

Deposit on May 28, 2004	Interest	Admin Expense	Rate Relief	Balance on December 31, 2023
\$ 6,761,232	\$ 8,790,934	\$ (18,000)	\$ (12,919,709)	\$ 2,614,457

Rate offset end date 12/31/2027

Account #5413 County Deposit \$13 million + State Match of \$3.25 million = \$16.25 million

Deposit on May 29, 2020	Interest	Admin Expense	Rate Relief	Balance on December 31, 2023
\$ 16,250,000	\$ 6,144,893	\$ (3,000)	\$ (5,671,158)	\$ 16,720,735

Rate offset end date 12/31/2035

Side Account Creation

When an employer makes a lump-sum payment to prepay all or part of their pension UAL, PERS deposits the money in a special account called a side account. This account is attributed solely to the employer making the payment and is held separately from other employer reserves. PERS applies the funds toward the employer's UAL (i.e., their PERS debt), which reduces the employer's contribution rate. The payments from the side account are amortized over a predetermined period (usually 20 years).

Side accounts increase an employer's actuarial assets, reducing the gap between actuarial assets and actuarial liabilities. When liabilities exceed assets, this becomes a UAL. Establishing a side account reduces the pension obligation, which reduces the employer contributions and rates over time.

The Employer Incentive Fund (EIF) program was established by the 2018 Oregon Legislature with Senate Bill 1566. This measure provides additional funding for PERS by creating the EIF to match side account contributions by participating PERS employers. Employers who apply to open or increase a side account under the EIF program receive a matching deposit of 25% of their side account deposit. The match is paid from the Employer Incentive Fund, which is a separate fund managed by Oregon State Treasury that is funded by Oregon Lottery sports betting proceeds.

Application Process:

Phase one, April 1 – June 30, 2025: Application period for employers with an unfunded actuarial liability (UAL) greater than 200% of valuation payroll.

- Fund starting balance: \$39 million
- Employers who were approved for matching funds: 8
- Matching funds allocated: \$5.7 million

Phase two, July 1, 2025 – all funds are matched: Application period for all employers.

- Fund starting balance: \$33.3 million
- Employers who were approved for matching funds: 28
- Matching funds allocated: \$33.3 million

Side-account Criteria:

To qualify for matching funds, the employer's side account deposit must be:

- At least \$25,000 (this qualifies for the minimum match amount of \$6,250).
- No more than either \$300,000 or 5% of the employer's unfunded actuarial liability (UAL), whichever is greater.
- Sourced from cash, not borrowed funds.

Rate-Offset Date:

The PERS rate offset will be calculated based on the actuarial valuation for the year in which the payment is made into the side-account. The rate offset will be effective July 1 following the publication of that valuation. For example, if a payment is made October 1, 2025, the actuarial valuation for 2025 is published in 2026, and the rate offset would be effective July 1, 2027.

Fees Associated with Side-Account:

In the first year of a new side-account, a \$1,500 administrative fee is deducted to cover the cost of PERS staff setting up the account. Each year thereafter, the administrative fee is \$500, which is deducted automatically from the side account.

BUDGET IMPACTS:

The application process required the County to submit an analysis of the effect of a new side account deposit plus the State matching funds on future rates using their Employer Rate Projection Tool (see attached summary). The projection estimated a new side account of \$6.25 million (\$5 million deposit plus a \$1.25 million match) will receive a rate credit of - 0.39% over a 20-year period with an estimated \$10.3 million in savings.

ATTENDANCE:

Robert Tintle, Chief Financial Officer

Cam Sparks, Budget & Financial Planning Manager