The portfolio yield:

$$\frac{\text{Investment Income}}{\text{Invested Assets}}$$

The portfolio yield is the percentage of investment income in relation to the size of a pool's invested asset portfolio. As a numerical example, a portfolio with $50 million in invested assets generating $1.5 million of investment income has a portfolio yield of 3 percent.

Investment income is a critical element to a pool's business model, and can be used to bolster loss reserves and/or surplus, offset contributions needed from members, pay dividends, or fund projects and programs for members. Knowing your pool's average portfolio yield helps manage expectations for and possible uses of future investment income.

A portfolio with high yield might seem attractive, but with additional expected yield comes higher volatility in investment performance - meaning that there could be a loss of investment income in any given year. For this reason, pools are often statutorily restricted to low-yielding investment vehicles as a protection from volatility, and therefore usually have a lower portfolio yield than commercial insurance companies.

The insurance industry range of 3.0 to 6.5 percent portfolio yield over time is considered standard, but comes with swings up and down that can be unpredictable. The portfolio range for public entity pools is more typically 2.0 to 6.0 percent, with lesser chance of any year having notably better or worse results. Because portfolio yield can vary one year to the next, calculating 3-year or 5-year rolling averages is advised.

Investment income as used in this ratio is considered net of portfolio management expenses. Higher-yielding portfolios, such as actively managed accounts and equity funds, typically carry a higher fee structure, while low-yielding bond portfolios tend to carry a lower fee structure.