



# Retirement Updates: 2022 Legislative Session



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URS/PEHP Employer Event

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# 2022 Retirement Bills that Passed



# S.B. 24

## Retirement Systems Revisions

**(1<sup>st</sup> Substitute Version)** (Sen. Harper)

- » These are administrative and technical amendments to Utah Code Title 49 recommended to the Legislature annually by URS.
- » Participating employers are required to report and certify employee eligibility for service credit accrual to URS within 30 days after the end of each pay period. This clarifies in statute the subcategories of employees for which the employer must report and certify, including affirmative reporting of ineligible employees, reemployed retirees, and employees who are eligible for employer contributions to a defined contribution plan administered by URS.

# H.B. 70

## Public Safety Disability Benefits Amendments

**(1<sup>st</sup> Substitute Version)** (Rep. Gwynn)

- » Requires a participating employer to provide a benefit protection contract for any public safety or firefighter service employee who suffers a qualifying injury (resulting from external force or violence due to the performance of an employment duty).
- » The benefit protection program is based upon the member being awarded and receiving either ongoing monthly long-term disability benefits or ongoing monthly workers' compensation indemnity disability benefits.
- » Employers currently have the option of covering Tier 2 members under a benefit protection contract or waiving such coverage.

# H.B. 75

## Retirement System Transparency Amendments

**(1<sup>st</sup> Substitute Version)** (Rep. Dunnigan)

- » Authorizes, but does not require, a participating employer that is public employees' association or an insurer to qualify to make and complete an election no later than July 1, 2024, for the withdrawal from URS participation for its employees.

# S.C.R. 1

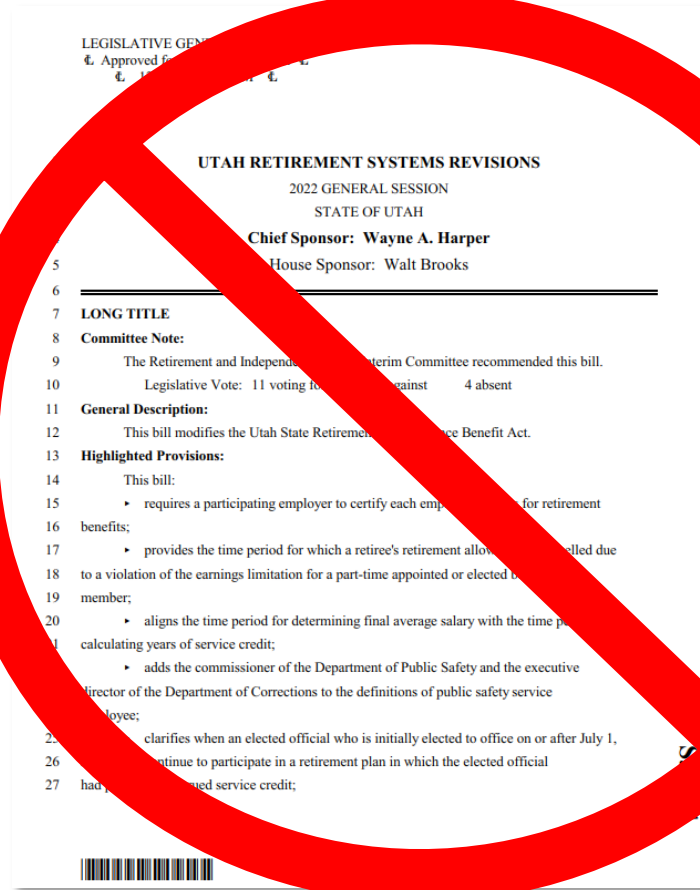
## Concurrent Resolution Authorizing State Pick up of Public Safety and Firefighter Employee Retirement Contributions

(Sen. Harper)

- » The State formally elects to prospectively “pick-up” and pay required employee contributions up to a maximum of 2.59% (for a total of 16.59%) for Tier 2 Public Safety and Firefighter State employees.
- » Provides an equal nonelective contribution for the Public Safety and Firefighter State employees who are members of the Tier 2 Defined Contribution Plan.



# Retirement Bills that did not Pass



# Did Not Pass

- » A new working retiree exception to the Utah Code's Postretirement Reemployment Restrictions Act. (*Multiple bills*)
- » Tier 2 Public Safety and Firefighters' System reform: 1) 20-year retirement; 2) Multiplier increased to 2.50% for each of the first 20 years of service and 2.0% for each year of service after that; and 3) Make the multiplier increase apply to all the years of service. (*H.B. 12*)
- » Authorize long-term disability (LTD) benefits for an objective medical impairment regardless of whether the impairment is physical or mental. Would eliminate the two-year limit for disability benefits attributable to a mental impairment during a three-year pilot period. (*H.B. 233*)



# “Working Retiree”

A retiree who returns to work for a participating employer, earning another salary while continuing to receive a monthly retirement allowance from URS.

This may be called:

- » Post-retirement reemployment
- » Return to work
- » Double dipping
- » Working retiree



# Working Retiree Restrictions

## General Rule

- » Current Utah statutes require URS to suspend the retirement allowance for members who become reemployed with a participating employer within one year of their initial date of retirement unless the member's postretirement reemployment qualifies for one of the exceptions provided in the statutes.

## Limited Earnings Exception

- » One exception allows working retirees who are reemployed after 60 days with a bona fide termination, don't receive employer provided benefits, and whose salary is limited during a calendar year (\$18,059.82 for 2022). The one-year separation period begins to run after this reemployment ends.

# 2022 Working Retiree Bills

2022 proposed exemptions (*Did Not Pass*) from the current postretirement reemployment restrictions include:

- » Public Safety/Firefighter: 60-day separation
- » Tier 1 Public Safety/Firefighter: 60-day separation (3.5-year pilot)
- » Classroom teachers or Public Safety: 60-day separation; half-time reemployment
- » Licensed educators: 60-day separation
- » Mental health professionals: Earnings limitation doubled
- » Licensed clinical therapists: 60-day separation

# Working Retiree Bills (Cont'd)

2022 proposed exemptions (*Did Not Pass*) from the current postretirement reemployment restrictions also include:

- » One-time exception for all public employees who retired before February 1, 2022
- » An employer who reemploys any retiree without the one-year separation pays a “surcharge” to cover the additional retirement costs
- » All retirees could retire for 60 days, return to part-time work for the rest of that year, after the one-year anniversary of the original retirement date immediately convert the position to full-time reemployment, and have the one-year separation period considered to be completed

# Statutes & Legislative Role

- » Plan design, policy, and benefit specifications for the defined benefit (DB) retirement systems are established in statute by the Legislature.
- » Utah Code Title 49 is the “Utah State Retirement and Insurance Benefit Act.”
- » Title 49 is the “plan document” for the DB systems.
- » Retirement “rules” are policy and financial decisions for the Legislature, including membership eligibility, level of benefits, and eligibility for retirement.

# Legislative Retirement Reforms

- » Following the 2008-2009 global financial crisis, the Legislature enacted major retirement reforms for Utah's public employees in the 2010 General Session:
  - › Created a different retirement benefit structure called Tier 2 for public employees hired on or after July 1, 2011; and
  - › Enacted post-retirement reemployment restrictions for future retirees, including a one-year separation period between retirement and a return to work.



# Statutory Restrictions & Changes

- » “A postretirement employment restriction is designed to prevent additional costs to the retirement system by discouraging earlier than normal retirement or at least eliminate incentives to retire earlier than normal (i.e., when the retiree is done working).”\*
- » Costs and funding are fundamental, long-term issues that the Legislature must prioritize within the constraints of limited public funds when it considers pension policies and the benefit changes in retirement bills.
- » Post-retirement Reemployment is the most frequent topic of retirement bills

\*Utah Postretirement Employment Restrictions, OLRGC Briefing Paper, December 2014

# Enacted Bills

## Making Substantive Changes to Post-Retirement Reemployment Rules

- 1989 H.B. 119, "Post-Retirement Employment"
- 1990 S.B. 78, "Post-Retirement Restrictions for Elected Officials"
- 1994 H.B. 155, "Retirement Office Amendments"
- 1995 H.B. 124, "Retirement Law Amendments"
- 1995 H.B. 107, "Postretirement Employment"
- 2000 H.B. 272, "Retirement Office Amendments"
- 2001 H.B. 36, "Retirement Office Amendments"
- 2002 H.B. 250, "Retirement Law Recodification"
- 2003 H.B. 246, "Retirement Office Amendments"
- 2004 H.B. 253, "Retirement Office Amendments"
- 2005 H.B. 180, "Retirement Office Amendments"
- 2007 H.B. 8, "Retirement Office Amendments"
- 2009 S.B. 127, "Retirement Amendments"
- 2010 S.B. 43, "Post-retirement Employment Amendments"
- 2011 S.B. 308, "Amendments to Public Employee's Benefit and Insurance Program"
- 2011 S.B. 127, "Post Retirement Employment Amendments"
- 2012 H.B. 256, "Retirement Modifications"
- 2013 H.B. 95, "Amortization Rate Contribution for Reemployed Retirees Revisions"
- 2014 S.B. 28, "Utah Retirement Amendments"
- 2014 S.B. 15, "Reemployment Restrictions Amendments"
- 2014 H.B. 126, "Retirement Amendments"
- 2015 H.B. 151, "Affiliated Emergency Service Worker Postretirement Employment Amendments"
- 2015 H.B. 12, "Utah Retirement System Amendments"
- 2016 H.B. 51, "Recodification of Postretirement Reemployment Provisions"
- 2020 S.B. 217, "State Retirement Amendments"

# Working Retiree Results

If retirees are permitted to commence their monthly retirement benefit earlier and continue to participate in the workforce:

- » Members can increase personal financial resources late in career
- » Employers may benefit from the ability to recruit and utilize recent retirees in their workforce
- » Increased retirement costs are paid from the Retirement Funds resulting in increased contribution rates for members (Tier 2 Hybrid) and employers (including those that do not hire retirees)



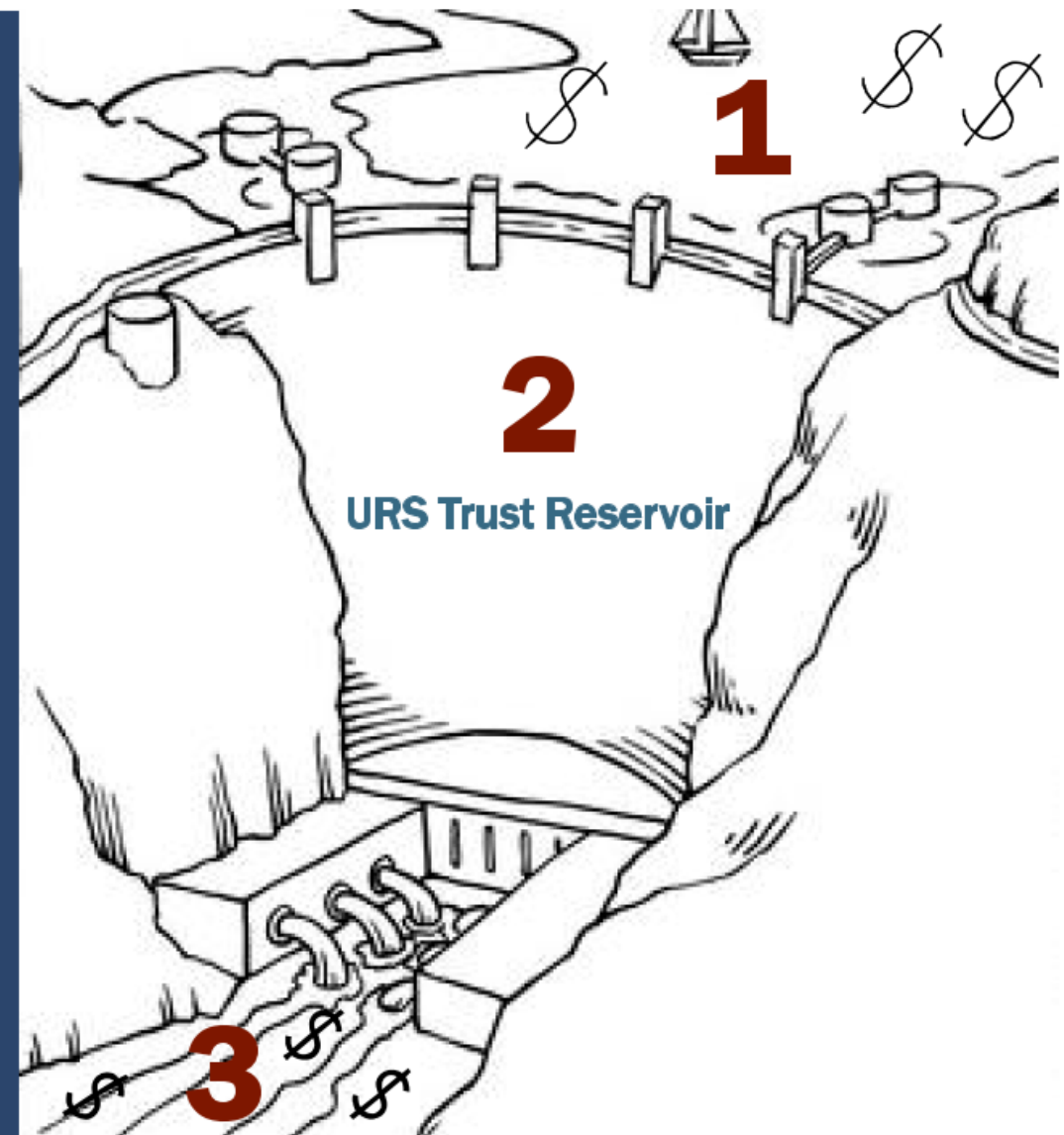
# Working Retiree Cost Principles

- » It is more expensive to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age and continue to participate in the workforce.
- » The financial impact of changes to working retiree provisions is actuarially determined based on the anticipated changes in retirement behavior. (How high is the hurdle to return to work in the rules?)
- » Costs or savings are realized over a very long term and are hidden in the systems unless specifically identified and analyzed.

# Reservoir of Shared Funds for Members

1. Employer and employee contributions are deposited each pay period during working years; fund investment returns are also added
2. Funds are held in trust, professionally managed and invested
3. Funds are paid out monthly by formula during retirement years

*(For defined contribution plans, funds are placed in an employee's individual account when deposited.)*



# Defined Benefit Plans Funding

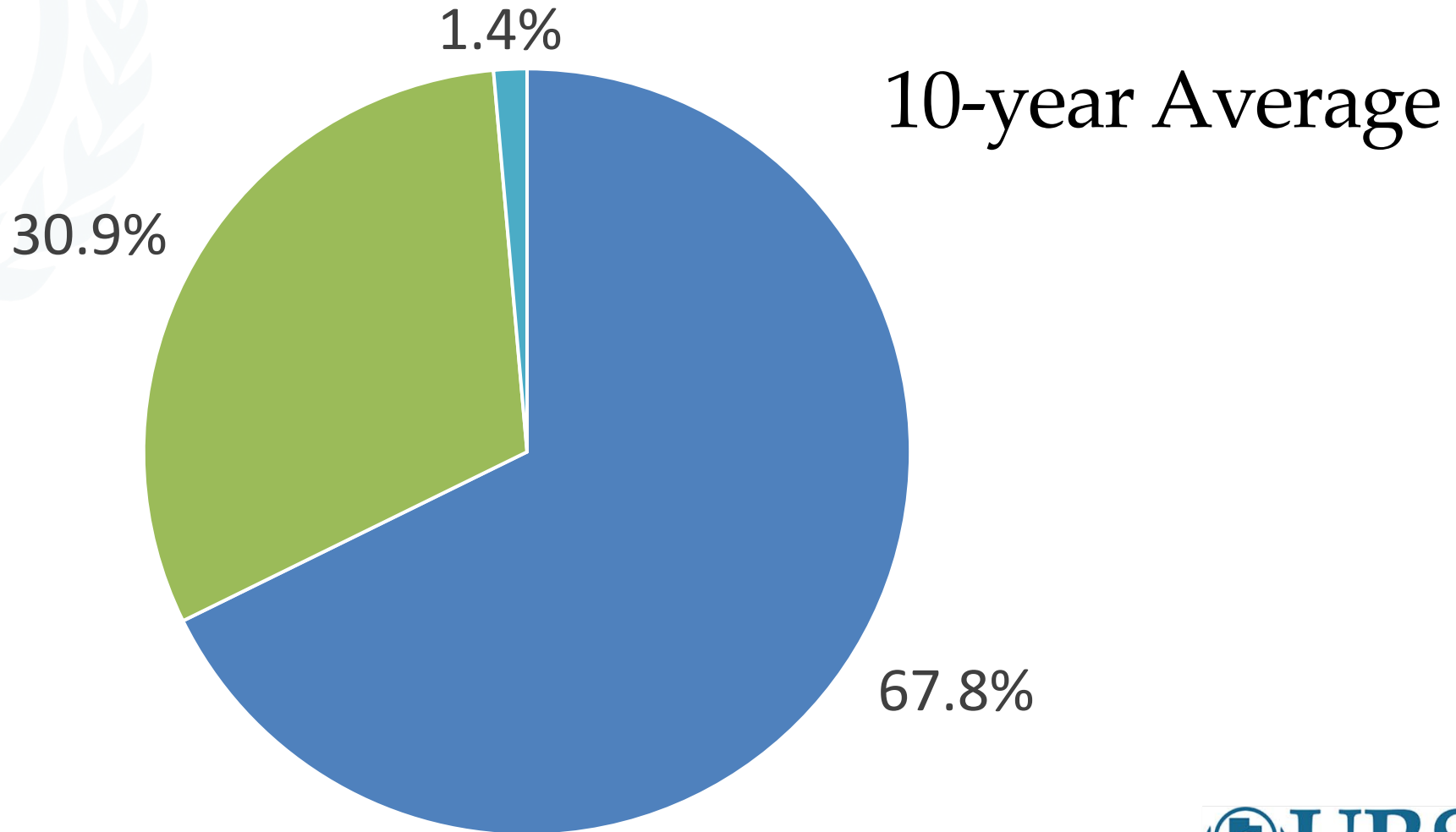
- » Net investment income (the largest source of funding):
  - › \$4.4 billion in 2020 (nearly one-year record high)
  - › \$23.3 billion over the last 10 years
- » Contributions totaled \$1.3 billion
- » Retirement benefit payments:
  - › Paid \$1.9 billion in 2020, a \$108 million increase
  - › 10-year total is nearly \$14.3 billion
- » URS paid out \$591 million more in benefits compared to contributions received in 2020



*Most recent audited information; For the year ended Dec. 31, 2020*



# DB Plan Additions by Source



■ Net investment income ■ Contributions ■ Fire insurance premium taxes, budget appropriations, and court fees

*Most recent audited information; For the year ended Dec. 31, 2020*

# URS Role

- » The administrator of the systems, plans, and programs established under Utah Code Title 49.
- » Retirement Board members serve as the trustees of the Retirement Investment Fund and approve contribution rates and take actions required to maintain the retirement systems on an actuarially and financially sound basis.
- » Responsibility to inform stakeholders about the impacts of changes to retirement rules on contribution rates, including providing fiscal analysis on bills.

# URS Role: Legislation

- » As the administrator, generally URS is neither for nor against current benefit provisions or proposed legislative changes in bills.
- » The Utah State Retirement Board may, pursuant to its statutory authority and through the Executive Director and General Counsel, speak openly and candidly about or take a position regarding legislation or proposed actions, including those that would, in its opinion:
  - › impact the sustainability of public employee benefits;
  - › materially impact or cut public employee benefits; or
  - › raise administration problems or costs for the Office.

# Consulting Actuary Role

- » Recommends actuarial assumptions to the Utah State Retirement Board:
  - › Economic assumptions (Includes inflation, salary increases, and investment rate of return)
  - › Demographic assumptions (Includes pre-retirement turnover, disability, retirement, and mortality)
- » Calculates the liability of the retirement systems
  - › Membership data, plan provisions, actuarial assumptions
- » Provides fiscal analysis on bills
- » Recommends the contribution rates required to fund the retirement systems for Board approval

# Going Forward

- » Legislative study about retirement benefits with Retirement and Independent Entities Committee in 2022 Interim.
- » URS will meet with the Membership Council and other retirement stakeholder groups to discuss benefits, potential changes, and costs.
- » Potential key topics include:
  - › Comprehensive working retiree rule changes
  - › Tier 2 reforms (Public Safety/Firefighter System & Public Employees' System)



# Careful Retirement Changes

Changes should carefully be reviewed and evaluated for impacts and costs by the stakeholders prior to legislative action, including determining:

- » Legislative policy objectives;
- » Employer needs, recruiting and retention considerations, and ability to pay;
- » Employee needs, considerations, and morale; and
- » How retirement benefits fit within a competitive overall compensation and benefits package.



# Questions?

URS is willing to discuss questions or provide additional information, whether related to this presentation or about other retirement-related issues.

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