

URS Fiscal Analysis of 2019 H.B. 269

This document has been prepared by the Utah Retirement Systems (URS) based on information and analysis received from its consulting actuary, Gabriel Roeder Smith & Company.

Summary of Fiscal Impact

If enacted, 2019 H.B. 269, Public Safety and Firefighter Retirement Amendments, has the following fiscal impact on URS and affected participating employers:

Increase in unfunded actuarial accrued liability (UAAL):	Increase in annual cost for all participating employers for Fiscal Year 2019-2020:	Increase in actuarially determined contribution rates:
\$86.17 Million	\$11.39 Million	See Exhibits for detailed information about the contribution rate increases, but ranges are: <ul style="list-style-type: none"> • Tier 1 Public Safety System Funds: Increases ranging from 1.87% to 2.64% • Tier 1 Firefighters' Retirement System Funds: Increases ranging from 1.34% to 1.76% • Tier 2 Public Safety and Firefighter System: 0.59% increase

Proposed Legislative Provisions

H.B. 269 provides a new exception to the Utah Code's Postretirement Reemployment Restrictions Act. Currently URS will suspend the retirement allowance for members who become reemployed within one year of their initial date of retirement unless the member's postretirement reemployment qualifies for one of the exceptions provided in the Act.

To qualify for this exception:

- the retiree may not receive any employer paid retirement service credit or retirement related contributions from the participating employer;
- the participating employer that reemploys the retiree is required to contribute to URS on behalf of the working retiree the amortization rate;
- the retiree must be reemployed by a participating employer that is a different participating employer than the participating employer the reemployed retiree was employed by at the time of retirement, except for reemployment by the State of Utah with a different agency or office; and
- the retiree certifies, under penalty of fraud, that there was not a prearrangement of reemployment before the retiree's retirement date with a participating employer.

This proposed legislation would become effective beginning on July 1, 2019.

Discussion and Actuarial Analysis

At a high level, the impact on the cost of the member's benefit due to changes in the postretirement reemployment provisions is determined assuming the member's expected exit from the workforce versus when the member's benefit commenced. It has been demonstrated in prior analysis that it is more expensive for employers to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age. This effect has been studied and documented several times for stakeholders in URS. For more background information, general discussion, and analysis of postretirement reemployment restrictions and the fiscal impact of potential changes to the working after retirement provisions, please see the letter from Gabriel Roeder Smith & Company to URS Executive Director Daniel Andersen dated September 23, 2015, including the exhibits. This letter titled, "Actuarial Analysis: Potential Changes to Working After Retirement Provisions" was presented at the Legislature's Retirement Working Group meeting on September 24, 2015 and is available online at <http://le.utah.gov/interim/2015/pdf/00004225.pdf>. This Working Retiree Analysis reflects the actuary's 2015 study of historical experience and the most recent actuarial valuation of URS.

To model the anticipated change in retirement behavior, the actuary has assumed the rate of retirement for public safety members would increase by 6% (2% for firefighters) at each age prior to age 60. These anticipated changes are based on the review of historical working after retirement behavior that was studied extensively in 2015.

The attached exhibits show the fiscal impact of H.B. 269 for each system maintained by URS. The first exhibit provides the impact on the actuarially determined contribution rates and the expected increase in the dollar amount of the contribution for fiscal year 2019-2020. The second exhibit provides the impact on the unfunded actuarial accrued liability and funded ratio.

Since the changes to return to work provisions for Tier 2 Public Safety and Firefighter members are being made sooner than later in these members' careers, the cost impact is lower now, versus a larger contribution impact if it would be enacted later. Please note that the employers' total contribution to the Tier 2 Public Safety and Firefighter System will remain unchanged at 12.00% of pay and the proposed legislation will result in a 0.59% decrease in the employer's contribution to the member's defined contribution account. As a result, all the Tier 2 Public Safety and Firefighter members in the hybrid plan will be financing the benefit change by receiving a smaller contribution to their defined contribution account, even if they may not utilize the less restrictive reemployment after retirement provisions.

Other Actuarial Comments

This information is based on a preliminary review and not final actuarial analysis. Also, actuarial calculations are based upon assumptions regarding future events, which may or may not materialize. Please bear in mind that actual results could deviate significantly from the actuary's projections, depending on actual plan experience. This information is intended to describe the

financial and actuarial effect of the proposed plan changes on URS only. Changes in retirement benefit provisions could impact the cost of other benefit programs, such as post-retirement health benefits. The actuary's analysis does not include this possible effect.

It should be noted that URS and its actuary are neither for nor against the proposed changes. Benefit changes are a policy decision for the Legislature and employers. Our goal is to inform the stakeholders of the impact on URS of changes to these provisions.

Administrative Cost Analysis

As with all bills that alter benefit design or make substantive benefit modifications, implementation of 2019 H.B. 269 will likely result in some administrative costs but these will be handled within existing budgets and will not result in direct, measurable costs for URS.

HB 269 - 2019 General Assembly Session
Impact on Actuarially Determined Contribution Rates
and Annual Cost for Participating Employers
(\$ in thousands)

Fund/Division (1)	Actuarially Determined Contribution Rates			Annual Cost for FY 2019/2020 Based on Actuarially Determined Rates		
	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Increase
	(2)	(3)	(4)	(5)	(6)	(7)
I. Public Employees Contributory						
A. Local Government	11.33%	11.33%	0.00%	\$ 2,550	\$ 2,550	\$ 0
B. State and School	14.56%	14.56%	0.00%	2,647	2,647	0
C. Higher Education	15.16%	15.16%	0.00%	1,046	1,046	0
II. Public Employees Noncontributory						
A. Local Government	15.34%	15.34%	0.00%	135,853	135,853	0
B. State and School	19.05%	19.05%	0.00%	495,324	495,324	0
C. Higher Education	19.65%	19.65%	0.00%	52,551	52,551	0
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	19.31%	21.50%	2.19%	407	455	48
B. Other Division A (4% COLA)	20.95%	23.40%	2.45%	42	47	5
C. Other Division B (2.5% COLA)	21.74%	23.91%	2.17%	15	17	2
D. Other Division B (4% COLA)	18.51%	20.41%	1.90%	27	29	2
IV. Public Safety Noncontributory						
A. State	34.54%	36.67%	2.13%	40,814	43,247	2,433
B. Other Division A (2.5% COLA)	30.76%	32.94%	2.18%	34,764	37,284	2,520
C. Other Division A (4% COLA)	32.15%	34.55%	2.40%	11,267	12,114	847
D. Salt Lake City	43.69%	46.04%	2.35%	13,915	14,594	679
E. Ogden	44.06%	46.33%	2.27%	2,653	2,781	128
F. Provo	39.49%	41.98%	2.49%	2,093	2,218	125
G. Logan	38.45%	41.09%	2.64%	931	992	61
H. Bountiful	47.64%	49.51%	1.87%	905	937	32
I. Other Division B (2.5% COLA)	31.20%	33.20%	2.00%	18,237	19,325	1,088
J. Other Division B (4% COLA)	28.67%	30.68%	2.01%	1,297	1,389	92
V. Firefighters ²						
A. Division A	11.69%	13.03%	1.34%	3,560	4,017	457
B. Division B	9.68%	11.44%	1.76%	8,200	9,810	1,610
VI. Judges ²	49.32%	49.32%	0.00%	9,255	9,255	0
VII. Tier II - Hybrid Plans ³						
A. Public Employees	8.97%	8.97%	0.00%	143,647	143,647	0
B. Public Safety and Firefighter	11.30%	11.89%	0.59%	18,336	19,593	1,257
VIII. Grand Total				\$ 1,000,336	\$ 1,011,722	\$ 11,386

Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2018 actuarial valuation.

¹ The analysis is based on the increase in the actuarially determined contribution rates, which identifies the required increase in the Board certified contribution rate.

² These contribution rates are before reflecting offsets for insurance premiums and court fees.

³ These rates for the Tier II Hybrid Funds exclude the Tier I amortization payment and the 3% Substantial Substitute.

HB 269 - 2019 General Assembly Session
Impact on Unfunded Actuarial Accrued Liability and Funded Ratio by Fund
Determined on an Actuarial Value of Asset Basis
(\$ in thousands)

Fund/Division (1)	Unfunded Actuarial Accrued Liability			Funded Ratio		
	Current (2)	Proposed Legislation (3)	Increase (4)	Current (5)	Proposed Legislation (6)	Decrease (7)
I. Public Employees Contributory						
A. Local Government	\$ 21,820	\$ 21,820	\$ 0	95.2%	95.2%	0.0%
B. State and School	24,384	24,384	0	96.4%	96.4%	0.0%
C. Higher Education	7,538	7,538	0	95.2%	95.2%	0.0%
II. Public Employees Noncontributory						
A. Local Government	593,905	593,905	0	89.0%	89.0%	0.0%
B. State and School	2,549,300	2,549,300	0	87.5%	87.5%	0.0%
C. Higher Education	243,708	243,708	0	86.6%	86.6%	0.0%
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	2,753	3,171	418	97.7%	97.4%	-0.3%
B. Other Division A (4% COLA)	314	361	47	98.7%	98.5%	-0.2%
C. Other Division B (2.5% COLA)	89	99	10	99.7%	99.7%	0.0%
D. Other Division B (4% COLA)	131	153	22	98.5%	98.3%	-0.2%
IV. Public Safety Noncontributory						
A. State	204,975	226,514	21,539	85.1%	83.8%	-1.3%
B. Other Division A (2.5% COLA)	145,659	167,736	22,077	87.0%	85.3%	-1.7%
C. Other Division A (4% COLA)	50,389	57,994	7,605	85.2%	83.4%	-1.8%
D. Salt Lake City	96,015	101,762	5,747	74.7%	73.6%	-1.1%
E. Ogden	20,269	21,417	1,148	75.9%	74.9%	-1.0%
F. Provo	13,450	14,602	1,152	78.9%	77.5%	-1.4%
G. Logan	6,027	6,624	597	82.4%	81.0%	-1.4%
H. Bountiful	6,864	7,126	262	74.8%	74.1%	-0.7%
I. Other Division B (2.5% COLA)	72,562	80,995	8,433	83.0%	81.4%	-1.6%
J. Other Division B (4% COLA)	4,134	4,845	711	91.5%	90.2%	-1.3%
V. Firefighters						
A. Division A	3,742	6,802	3,060	98.3%	96.9%	-1.4%
B. Division B	7,502	19,396	11,894	99.2%	98.1%	-1.1%
VI. Judges	46,396	46,396	0	80.5%	80.5%	0.0%
VII. Tier II - Hybrid Plans ²						
A. Public Employees	17,664	17,664	0	94.7%	94.7%	0.0%
B. Public Safety and Firefighter	731	2,179	1,448	98.2%	94.7%	-3.5%
VIII. Grand Total	\$ 4,140,321	\$ 4,226,491	\$ 86,170	87.4%	87.2%	-0.2%

Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2018 actuarial valuation.