URS Fiscal Analysis of 2020 H.B. 279

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

Summary of Fiscal Impact
If enacted, 2020 H.B. 279, Disability Benefit Amendments, will have fiscal impact on the URS.

Discussion and Actuarial Analysis
The consulting actuary has determined that the proposed elimination of the 2-year limit for disability benefits attributable to a mental impairment would increase the Tier 1 Public Employees' Retirement System contribution rates by approximately 1 basis point resulting in an approximate $240,000 increase in the annual cost for participating employers.

Similarly, the Tier 1 Public Safety Retirement System contribution rates would increase 1 to 3 basis points (depending on the fund) resulting in a $70,000 increase in the annual cost for the participating employers in those funds.

Since the Tier 1 System Funds are closed to new members, the annual cost due to the proposed change would gradually decrease as the number of members earning Tier 1 benefits decline.

There is no fiscal impact to the Tier 1 Firefighters' Retirement System and no measurable impact to the defined benefit portion of the contribution rate to the either Tier 2 Hybrid Plan System (Tier 2 Public Employee and Tier 2 Public Safety). Since this proposed legislation is assumed to apply prospectively, there is no material change in the actuarial accrued liability.

Also, employers who elect to cover their employees under the Benefit Protection Contract would experience a prospective increase in annual cost equal to the employer's Tier 2 contribution rate times the imputed payroll of future mental impaired disabled members whose disability duration extends beyond 2 years.

Other Comments
To model the expected cost of this proposed change, the consulting actuary increased the assumed rate of disability incidence currently used in the actuarial valuation by 15% (i.e. multiplied the current incidence rate by 1.15). The 15% was selected as mental health LTD's comprise approximately 15% of total approved LTDs and is also consistent with other analysis used to review the impact to PEHP's cost. While it's possible there will be an increase in the number of LTD applicants that are siting mental health issues, the actuary does not believe there will be a material increase in the number of approved LTDs because the standard to become approved is remaining materially the same.

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 2020 H.B. 279 may result in some administrative costs. If such costs are incurred, they will be handled within existing budgets and will not result in direct, measurable additional costs for URS.