URS Fiscal Analysis of 2020 H.B. 289

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. 289, Public Education Retirement Amendments, will have fiscal impact on URS and certain of its stakeholders.

<table>
<thead>
<tr>
<th>Increase in unfunded actuarial accrued liability (UAAL):</th>
<th>Increase in annual cost for participating employers:</th>
<th>Increase in actuarially determined contribution rates:</th>
</tr>
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<tbody>
<tr>
<td>$22.5 million increase in the UAAL for those systems that cover educators.</td>
<td>In dollar terms this represents approximately a $1.6 million total increase in the initial year contribution requirement and grows at 3% per year for the 20-year period.</td>
<td>When amortized over the covered payroll for these funds over the next twenty years, the costs result in Tier 1, Funds 12 &amp; 16 (State and School) contribution rate increases of approximately 0.05% of payroll.</td>
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Proposed Legislative Provisions
Any pay included in the “final average salary” that is used to calculate a member’s retirement allowance is limited to the prior year’s pay increased by 10% (plus any cost of living adjustment). H.B. 289 would remove this limit on pay used in final average salary calculations for educators employed by a local education agency if:
1. The member moved to a new position in the same local educational agency due to a program need; or
2. The percentage increase is due to a union negotiated increase for a group of members that includes the member.

Discussion and Actuarial Analysis
The consulting actuary estimated the impact of removing the limitation on pay increases for final average salary purposes for educators.

To the model the impact of the proposal, the actuary used an across the board salary increase of $10,000 for educators (teachers and administrators) employed by local education agencies and determined the impact if the current limit was in place versus the impact if H.B. 289 was enacted. This resulted in a $22.5 million increase in the unfunded actuarial accrued liability (UAAL) for those systems that cover the educators. When amortized over the applicable payroll for these funds over the next twenty years, the cost is approximately 0.05% of payroll for Funds 12 & 16 (State and School). As per usual practice, the cost increase was spread evenly between the two funds. In dollar terms this represents approximately a $1.6 million increase in the initial year contribution requirement and grows at 3% per year for the 20-year period.
Note that while the proposal would impact Tier 2 as well, the total cost impact at this time was less than 1 basis point and rounded to zero basis points. This is due to the relatively small liability impact on Tier 2 because the members are relatively young and early in their careers versus the amount of payroll over which the cost increase would be spread.

The changes in H.B. 289 affect certain educators who participating employers participate in the State and School Division (Funds 12 & 16) of the Public employees’ retirement systems. Because the State of Utah and certain other state agencies participate in the same Division or risk pool as education employers, the contribution rates are applied to all participating employers in the State and School Division. For a list of all affected participating employers in the State and School Division, please refer to pages 252-255 of the URS 2018 Comprehensive Annual Financial Report (CAFR), which may be accessed online at http://newsroom.urs.org/2018-comprehensive-annual-financial-report. Since local governments (counties, municipalities, special districts, interlocal agencies, etc.) participate in the Local Government Division (Funds 11 & 15) of the Public employees’ retirement systems, their UAAL and contribution rates are not affected by H.B. 289.

The actuary also notes that they have assumed this would not impact any of the higher education funds and they have assumed that if enacted, the bill would not change retirement patterns.

Other Comments
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. 289 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 costs for URS that are in addition to the actuarially determined contribution rates discussed above resulting from the benefit modifications.