

URS Fiscal Analysis of 2021 H.B. 150

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, 2021 H.B. 150, Public Safety Post-retirement Reemployment Amendments, has the following fiscal impact on URS and affected participating employers and Tier 2 members:

Increase in unfunded actuarial accrued liability (UAAL):	Increase in annual cost for affected participating employers and Tier 2 Members for Fiscal Year 2021-2022:	Increase in actuarially determined contribution rates:
\$86.8 Million	\$11.8 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 1.80% to 2.32% • Tier 1 Firefighters' Retirement System Funds: Increases ranging from 1.20% to 1.61% • Tier 2 Public Safety and Firefighter System: Member contribution rate increase of 0.50%

Proposed Legislative Provisions

H.B. 150 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.

This new exception reduces the required period of separation from one year to 60 days for retirees from a public safety retirement system or firefighter retirement system. This proposed legislation would become effective beginning on January 1, 2022.

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 actuarial analysis that it is more expensive 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>.

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. 150 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 2021-2022. 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 with the Legislature's changes to the Tier 2 Public Safety and Firefighter System that went into effect on July 1, 2020, any required contributions above the employers' cap of 14.00% of pay must be paid as required employee contributions in that contributory system. Accordingly, if H.B. 150 is enacted, the Tier 2 Public Safety and Firefighter employers' total contribution to will remain unchanged at 14.00% of pay and all the Tier 2 Public Safety and Firefighter members in the hybrid plan will be financing the benefit change by paying an additional 0.50% of pay, even if they may not utilize the less restrictive reemployment after retirement provisions.

The increase in the FY 2020-2021 contribution requirement is \$11.8 million. This is comparable to the \$9.4 million the actuary communicated in previous analysis in 2015. Note, the dollar amount for FY 2021 is about 25% higher than the previous cost analysis because the covered payroll for public safety and firefighters has also increased by about 25% since that prior analysis. The actuarial methodology and assumptions are otherwise the same as that prior analysis.

Other Actuarial Comments

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 current working retiree restrictions or the proposed changes. Benefit changes are policy and financial decisions for the Legislature, employers, and members. URS' responsibility is to inform stakeholders about the impacts of changes to rules and benefits on contribution rates, including providing fiscal analysis on bills.

Administrative Cost Analysis

As with all bills that alter benefit design or make substantive benefit modifications, implementation of 2021 H.B. 150 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.

Utah Retirement Systems

Fiscal Impact of HB. 150 (2021 Legislative Session)

Impact on Actuarially Determined Contribution Rates and Annual Cost for Participating Employers (\$ in thousands)

Fund/Division (1)	Actuarially Determined Contribution Rates ²			Annual Cost ¹ for FY 2021/2022 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	10.98%	10.98%	0.00%	\$ 2,259	\$ 2,259	\$ 0
B. State and School	14.82%	14.82%	0.00%	2,022	2,022	0
C. Higher Education	15.65%	15.65%	0.00%	857	857	0
II. Public Employees Noncontributory						
A. Local Government	14.99%	14.99%	0.00%	136,821	136,821	0
B. State and School	19.31%	19.31%	0.00%	531,188	531,188	0
C. Higher Education	20.14%	20.14%	0.00%	46,347	46,347	0
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	20.25%	22.35%	2.10%	447	495	48
B. Other Division A (4% COLA)	19.15%	21.43%	2.28%	26	29	3
C. Other Division B (2.5% COLA)	22.50%	24.64%	2.14%	20	22	2
D. Other Division B (4% COLA)	18.52%	20.51%	1.99%	17	19	2
IV. Public Safety Noncontributory						
A. State	34.02%	36.11%	2.09%	39,551	41,912	2,361
B. Other Division A (2.5% COLA)	31.52%	33.61%	2.09%	37,457	40,013	2,556
C. Other Division A (4% COLA)	30.61%	32.88%	2.27%	10,383	11,180	797
D. Salt Lake City	41.37%	43.53%	2.16%	13,570	14,218	648
E. Ogden	42.37%	44.43%	2.06%	2,318	2,421	103
F. Provo	38.92%	41.21%	2.29%	2,102	2,221	119
G. Logan	38.19%	40.51%	2.32%	937	991	54
H. Bountiful	44.43%	46.23%	1.80%	930	965	35
I. Other Division B (2.5% COLA)	31.89%	33.86%	1.97%	19,900	21,062	1,162
J. Other Division B (4% COLA)	28.52%	30.35%	1.83%	1,215	1,297	82
V. Firefighters ³						
A. Division A	10.90%	12.10%	1.20%	3,443	3,912	469
B. Division B	8.25%	9.86%	1.61%	6,521	8,032	1,511
VI. Judges ³	49.72%	49.72%	0.00%	10,417	10,417	0
VII. Tier II - Hybrid Plans ⁴						
A. Public Employees	9.38%	9.38%	0.00%	200,089	200,089	0
B. Public Safety and Firefighter	16.08%	16.58%	0.50%	38,184	40,025	1,841
VIII. Grand Total				\$ 1,107,021	\$ 1,118,814	\$ 11,793

¹ Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2020 actuarial valuation. 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 The actuarially determined contribution rates may be less than the recommended contribution rates because they do not reflect the Board's policy of maintaining the prior year's rate, if greater, as permitted by U.C. Sec. 49-11-301(5). Except where stated, the rates include the cost of the 3% Substantial Substitute.

³ These contribution rates are before reflecting offsets for insurance premiums and court fees.

⁴ The actuarially determined contribution rates before reflecting the maximum employer contribution rate to the hybrid plan. These rates also exclude the Tier I amortization payment and the 3% Substantial Substitute. The normal cost excludes the 75% of pay death benefit provided to active members.



Utah Retirement Systems

Fiscal Impact of HB. 150 (2021 Legislative 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 ¹			Funded Ratio ¹		
	Current (2)	Proposed Legislation (3)	Increase (4)	Current (5)	Proposed Legislation (6)	Decrease (7)
I. Public Employees Contributory						
A. Local Government	\$ 19,690	\$ 19,690	\$ 0	95.7%	95.7%	0.0%
B. State and School	19,075	19,075	0	97.1%	97.1%	0.0%
C. Higher Education	6,111	6,111	0	96.2%	96.2%	0.0%
II. Public Employees Noncontributory						
A. Local Government	629,009	629,009	0	89.5%	89.5%	0.0%
B. State and School	2,937,546	2,937,546	0	86.8%	86.8%	0.0%
C. Higher Education	208,844	208,844	0	89.7%	89.7%	0.0%
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	3,307	3,718	411	97.2%	96.9%	-0.3%
B. Other Division A (4% COLA)	170	198	28	99.2%	99.1%	-0.1%
C. Other Division B (2.5% COLA)	126	139	13	99.6%	99.6%	0.0%
D. Other Division B (4% COLA)	90	103	13	99.0%	98.9%	-0.1%
IV. Public Safety Noncontributory						
A. State	205,128	226,243	21,115	86.3%	85.1%	-1.2%
B. Other Division A (2.5% COLA)	183,817	206,548	22,731	85.4%	83.9%	-1.5%
C. Other Division A (4% COLA)	45,690	53,049	7,359	87.8%	86.1%	-1.7%
D. Salt Lake City	93,533	98,898	5,365	77.0%	76.0%	-1.0%
E. Ogden	18,728	19,697	969	78.4%	77.5%	-0.9%
F. Provo	14,363	15,420	1,057	79.4%	78.2%	-1.2%
G. Logan	6,567	7,092	525	82.3%	81.1%	-1.2%
H. Bountiful	6,870	7,146	276	76.2%	75.5%	-0.7%
I. Other Division B (2.5% COLA)	92,339	101,540	9,201	82.4%	81.0%	-1.4%
J. Other Division B (4% COLA)	4,362	4,982	620	92.3%	91.3%	-1.0%
V. Firefighters						
A. Division A	(647)	2,571	3,218	100.3%	99.0%	-1.3%
B. Division B	(11,945)	(381)	11,564	101.1%	100.0%	-1.1%
VI. Judges	50,446	50,446	0	80.8%	80.8%	0.0%
VII. Governors and Legislative	2,484	2,484	0	81.5%	81.5%	0.0%
VIII. 3% Substantial Substitute	305,077	305,094	17	42.3%	42.3%	0.0%
IX. Tier II - Hybrid Plans						
A. Public Employees	55,687	55,687	0	91.4%	91.4%	0.0%
B. Public Safety and Firefighter	13,330	15,665	2,335	85.6%	83.5%	-2.1%
X. Grand Total	\$ 4,909,797	\$ 4,996,614	\$ 86,817	87.4%	87.2%	-0.2%

¹ Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2020 actuarial valuation.

