URS Fiscal Analysis of 2022 H.B. 12, “Public Safety Retirement Amendments”

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, revised H.B. 12, Public Safety Retirement Amendments, has the following fiscal impact on URS, affected participating employers, and Public Safety and Firefighter 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 2022-2023:	Increase in actuarially determined contribution rates:
$162.44 Million	$41.93 Million for all funds, with $32.09 Million of that increase occurring in the Tier 2 Public Safety and Firefighter System	See Exhibits for detailed information about the contribution rate increases, but ranges are: • Tier 1 Public Safety System Funds: Increases ranging from 1.85% to 2. 41% • Tier 1 Firefighters' Retirement System Funds: Increases ranging from 1.19% to 1.60% • Tier 2 Public Safety and Firefighter System: Member contribution rate increase of 11.15%

Proposed Legislative Provisions

This legislation would enact four distinct retirement benefit changes for public safety and firefighter retirement benefits, effective beginning on January 1, 2023:

1. New Exception to the Postretirement Reemployment Restrictions

This bill amends Utah Code Title 49, Chapter 11, Part 12, the Postretirement Reemployment Restrictions Act. Current Utah law requires URS to 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 statutes.

This new exception reduces the required period of separation to return to work for a participating employer and keep receiving a monthly retirement allowance from one year to 60 days for retirees from a Tier 1 or Tier 2 Public Safety or Firefighter retirement system.

2. Reduction in years required for Tier 2 Public Safety and Firefighter Retirement
In addition, the proposed legislation allows Tier 2 Public Safety and Firefighters to retire with an unreduced benefit after attaining 20 years of service at any age and to retire with a reduced benefit after attaining age 60 and 10 years of service. The current statutory requirement allows retirement with an unreduced benefit after attaining 25 years of service at any age and to retire with a reduced benefit after attaining age 62 and 10 years of service.

3. Increase in Benefit Multiplier for Tier 2 Public Safety and Firefighter Hybrid System
Further, the proposed legislation provides an increase to the benefit multiplier for members of the Tier 2 Public Safety and Firefighter Hybrid System to 2.50% for each of the first 20 years of service and 2.0% for each year of service thereafter. In 2019 S.B. 129, the Legislature previously increased the multiplier from 1.5% to 2.0% for service earned on and after July 1, 2020.

4. Increase in the Benefit Multiplier Effective for All Member's Service
Finally, the proposed legislation makes the increase in the benefit multiplier (2.50% for each of the first 20 years of service and 2.0% for each year of service thereafter) applied to all the service for members of the Tier 2 Public Safety and Firefighter Hybrid System, including all prior service.

Discussion and Actuarial Analysis
The fiscal impact provided in the attached exhibits reflect the two changes in the previous version of this legislation along with the financial impact of the increased benefit multiplier in the Tier 2 Public Safety and Firefighter Hybrid System for all years of service earned by current active Tier 2 members.

The increase in the FY 2022-2023 contribution requirement for all funds would be $41.93 million annually, with $32.09 million of that occurring in the Tier 2 Public Safety and Firefighter Hybrid System. As a reminder, this is an annual cost and not a one-time increase in the contribution requirement. Specifically, 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 2022-2023 for all funds. Also, it should be noted that while the contribution rate as a percentage of payroll is expected to remain relatively constant at the rates shown in the exhibit, the dollar amount of the cost will increase with the expected increases in Tier 2 covered payroll, both as the membership expands and pay is increased.

The second exhibit provides the total impact on the unfunded actuarial accrued liability and funded ratio. In sum, the increase in the unfunded actuarial liability for all funds is $162.436 million, with $77.257 million of that increase occurring in the Tier 2 Public Safety and Firefighter Hybrid System.

The increase in the FY 2022-2023 contribution requirement is comparable to the actuary's previous analysis that was performed last year for the first two benefit changes described above. Note, the dollar amount for FY 2022-2023 is about 20% higher than the previous cost analysis because the covered payroll for public safety and firefighters has also increased by about 20% since that prior analysis. The actuarial methodology and assumptions were also updated to be the same as the January 1, 2021 actuarial valuation, including the 6.85% assumed investment rate of return.

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 (mainly the increase in the retirement formula multiplier from 1.5% to 2.0%), 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. 12 is enacted, the Tier 2 Public Safety and Firefighter employers' total contribution 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 changes in this bill by paying an additional 13.74% of pay. This would result in new required member contributions of 11.15% of pay from this legislation, for a total of 13.74% of pay in required member contributions. An employer may elect to formally "pick-up" employee contributions for Hybrid System members, which would also result in required increases to the nonelective contribution made by a participating employer to members' 401(k) for Defined Contribution Plan members.

The actuary notes that the calculated contribution rate is above the 14% of covered payroll employer rate so that the hybrid members no longer receive a defined contribution benefit, except as the members make elective contributions. Also, it would not take much adverse experience (investment or liability) or a future change in actuarial assumptions (e.g. a decrease in the investment return assumption) to further increase the cost of the defined benefit portion of the hybrid plan. If there is a secondary objective to keep the cost of the defined benefit plan below or closer to the employer contribution rate, then the actuary points out that legislators could adopt a higher employer contribution requirement (higher than the current 14% of covered payroll employer contribution rate).

1. New Exception to the Postretirement Reemployment Restrictions

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.

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 return to work restrictions were enacted later in the Tier 2 members' careers (like is being done with Tier 1).

2. Reduction in years required for Tier 2 Public Safety and Firefighter Retirement
The second benefit changed in the proposed legislation would allow Tier 2 public safety and firefighters to retire with an unreduced benefit after attaining 20 years of service and to retire with a reduced benefit after attaining age 60 and 10 years of service.

It is more expensive to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age, which this change would drop the required years of service by 5 years from 25 years to 20 years. Because this change only affects Tier 2 Public Safety and Firefighter members, Tier 1 Public Safety and Tier 1 Firefighter retirement systems do not have cost impacts from this benefit change.

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 return to work restrictions were enacted later in the Tier 2 members' careers (like is being done with Tier 1).

3. *Increase in Benefit Multiplier for Tier 2 Public Safety and Firefighter Hybrid System*
The third benefit changed in the proposed legislation would provide an increase to the benefit multiplier for members of the Tier 2 Public Safety and Firefighter Hybrid System to 2.50% for each of the first 20 years of service and 2.0% for each year of service thereafter. As expect, the retirement benefit costs increase significantly because the multiplier is increasing 25% going forward.

4. *Increase in the Benefit Multiplier Effective for All Member's Service*
Finally, the proposed legislation makes the increase in the benefit multiplier (2.50% for each of the first 20 years of service and 2.0% for each year of service thereafter) applied to all the service for members of the Tier 2 Public Safety and Firefighter Hybrid System, including all prior

service. If the benefit enhancement only provided the 2.5% multiplier on future service, then the increase in the actuarial accrued liability would be much smaller. For the Tier 2 Public Safety and Firefighter years of service accrued prior to July 1, 2020, this represents a 40% increase in in the multiplier as well as a 25% increase in the multiplier since July 1, 2020 to the effective date of this legislation. Because this increase was not previously funded, then the increase in the unfunded actuarial accrued liability is considerable and requires additional significant contributions to fund this aspect of the benefit changes in this legislation.

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 employer costs or 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, the Tier 2 years required to retire, 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 H.B. 12 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.