URS Fiscal Analysis of 2022 H.B. 61, "Postretirement Reemployment 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, H.B. 61, Postretirement Reemployment Amendments, has the following fiscal impact on URS, 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 2022-2023:	Increase in actuarially determined contribution rates:
$45.27 Million	$5.74 Million	See Exhibits for detailed information about the contribution rate increases, but ranges are: • Tier 1 Public Employees' System: Increases ranging from 0.0% to 0.07% • Tier 1 Public Safety System Funds: Increases ranging from 0.53% to 0.71% • Tier 2 Public Employees' System: Contribution rate increase of 0.02% • Tier 2 Public Safety and Firefighter System: Member contribution rate increase of 0.15%

Proposed Legislative Provisions

This bill amends Utah Code Title 49, Chapter 11, Part 12, the Postretirement Reemployment Restrictions Act to enact a new exception for certain teachers and public safety service retirees, effective beginning on January 1, 2023. 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 is, at the time of retirement, a teacher or public safety service employee. In addition, a qualifying retiree may not receive employer paid benefits and must be employed in less than a half time basis.

Discussion and Actuarial Analysis

The fiscal impact provided in the attached exhibits reflect the benefit changes in this legislation. The increase in the FY 2022-2023 contribution requirement for all funds would be $5.74 million annually. 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 change with the expected respective changes in Tier 1 and Tier 2 covered payroll, both as the membership and pay change.

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 $45.27.

Note, the exemption in this proposed legislation does not apply to firefighters and non-teachers in the Public Employees' system. Because of the various types of members earning benefits in the funds maintained by URS, a cost subsidy will occur in the Tier 1 public employee funds and both Tier 2 Hybrid plan systems because the increased contribution rate will apply to the entire payroll of members covered by the fund, which results in increased cost for employers (and members for the Tier 2 Public Safety and Firefighter System) who may not have employees eligible to benefit from this additional exemption.

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 for the qualified members, the actuary increased the base retirement rates by 1.5% at each age under 65 for educators and the base retirement rates for public safety members by 1.5% for each age under 60. The remaining assumptions in the analysis remain the same as those used to prepare the January 1, 2021 actuarial valuation, including the 6.85% interest rate. As noted by URS, there is currently not a way to identify members who are "classroom teachers." However, based on current participating employer reporting, URS is able to identify public employee members who are educators, which includes classroom teachers. While the adjusted retirement rates have been applied to all members classified as educators, the actuary believes the resulting fiscal impact is suitable for identifying the potential cost of this proposed legislation.

The actuary also comments that it is possible that many employers will find limited use of hiring the qualified retirees on less than half-time basis, which may result in employers and retirees lobbying for an increase in the current proposed limitation of 50% of full-time hours. An increase in the limitation would result in additional changes in retirement behavior (and increased benefit cost).

The actuary notes that the calculated contribution rate in the Tier 2 Public Safety and Firefighter System 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).

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).

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. 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 this bill 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.

Proposed Legislation 2022FL-0339/004

Amend the PostRetirement Reemployment Provisions for Public Safety Members and Teachers Such that Qualified Members May Obtain up to 50% Employment Prior to their One-Year Separation of Service without Cancellation of the Member's Retirement Allowance

Exhibit 1. Impact on Actuarially Determined Contribution Rates and Annual Cost for Participating Employers
($ in thousands)

		Actuarially Determined Contribution Rates[2]			Annual Cost[1] for FY 2022/2023 Based on Actuarially Determined Rates		
	Fund/Division	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Increase
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	Public Employees Contributory						
	A. Local Government	10.55%	10.55%	0.00%	$ 1,890	$ 1,890	$ 0
	B. State and School	14.54%	14.61%	0.07%	1,776	1,785	9
	C. Higher Education	13.53%	13.56%	0.03%	595	596	1
II.	Public Employees Noncontributory						
	A. Local Government	14.56%	14.56%	0.00%	130,213	130,213	0
	B. State and School	19.03%	19.10%	0.07%	542,626	544,838	2,212
	C. Higher Education	18.02%	18.05%	0.03%	39,091	39,161	70
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	19.66%	20.27%	0.61%	466	481	15
	B. Other Division A (4% COLA)	19.26%	19.97%	0.71%	21	22	1
	C. Other Division B (2.5% COLA)	22.16%	22.80%	0.64%	20	21	1
	D. Other Division B (4% COLA)	14.91%	15.52%	0.61%	13	14	1
IV.	Public Safety Noncontributory						
	A. State	32.80%	33.40%	0.60%	36,243	36,917	674
	B. Other Division A (2.5% COLA)	30.99%	31.59%	0.60%	36,397	37,151	754
	C. Other Division A (4% COLA)	30.79%	31.44%	0.65%	10,073	10,300	227
	D. Salt Lake City	40.84%	41.47%	0.63%	12,677	12,861	184
	E. Ogden	41.31%	41.92%	0.61%	2,115	2,144	29
	F. Provo	38.40%	39.05%	0.65%	2,106	2,140	34
	G. Logan	37.56%	38.22%	0.66%	896	911	15
	H. Bountiful	43.41%	43.94%	0.53%	877	887	10
	I. Other Division B (2.5% COLA)	31.59%	32.17%	0.58%	19,244	19,592	348
	J. Other Division B (4% COLA)	24.82%	25.37%	0.55%	976	1,002	26
V.	Firefighters[3]						
	A. Division A	10.82%	10.82%	0.00%	3,279	3,279	0
	B. Division B	7.18%	7.18%	0.00%	4,953	4,953	0
VI.	Judges[3]	48.62%	48.62%	0.00%	10,556	10,556	0
VII.	Tier II - Hybrid Plans[4]						
	A. Public Employees	9.82%	9.84%	0.02%	238,993	239,557	564
	B. Public Safety and Firefighter	16.59%	16.74%	0.15%	46,121	46,684	563
VIII.	Grand Total				$ 1,142,217	$ 1,147,955	$ 5,738

[1] Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2021 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. The actuarially determined rate in excess of the employer contribution rate will be financed by member contributions.

Proposed Legislation 2022FL-0339/004

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Exhibit 2. Impact on Unfunded Actuarial Accrued Liability and Funded Ratio by Fund Determined on an Actuarial Value of Asset Basis

($ in thousands)

		Unfunded Actuarial Accrued Liability[1]			Funded Ratio[1]		
	Fund/Division	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Decrease
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	Public Employees Contributory						
	A. Local Government	$ 15,570	$ 15,570	$ 0	96.6%	96.6%	0.0%
	B. State and School	16,624	16,746	122	97.4%	97.4%	0.0%
	C. Higher Education	3,729	3,742	13	97.7%	97.7%	0.0%
II.	Public Employees Noncontributory						
	A. Local Government	531,457	531,457	0	91.7%	91.7%	0.0%
	B. State and School	2,913,739	2,936,867	23,128	87.7%	87.6%	-0.1%
	C. Higher Education	134,501	134,902	401	93.3%	93.3%	0.0%
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	3,289	3,417	128	97.2%	97.1%	-0.1%
	B. Other Division A (4% COLA)	164	172	8	99.2%	99.2%	0.0%
	C. Other Division B (2.5% COLA)	121	125	4	99.6%	99.6%	0.0%
	D. Other Division B (4% COLA)	16	20	4	99.8%	99.8%	0.0%
IV.	Public Safety Noncontributory						
	A. State	174,321	180,273	5,952	88.8%	88.5%	-0.3%
	B. Other Division A (2.5% COLA)	168,778	175,469	6,691	87.4%	86.9%	-0.5%
	C. Other Division A (4% COLA)	44,435	46,551	2,116	89.0%	88.6%	-0.4%
	D. Salt Lake City	85,532	87,057	1,525	79.9%	79.6%	-0.3%
	E. Ogden	17,139	17,399	260	80.8%	80.6%	-0.2%
	F. Provo	14,206	14,509	303	80.8%	80.4%	-0.4%
	G. Logan	6,106	6,253	147	84.3%	84.0%	-0.3%
	H. Bountiful	6,396	6,479	83	78.2%	77.9%	-0.3%
	I. Other Division B (2.5% COLA)	84,772	87,592	2,820	85.0%	84.6%	-0.4%
	J. Other Division B (4% COLA)	737	940	203	98.7%	98.4%	-0.3%
V.	Firefighters						
	A. Division A	(6,447)	(6,447)	0	102.4%	102.4%	0.0%
	B. Division B	(39,452)	(39,452)	0	103.5%	103.5%	0.0%
VI.	Judges	47,287	47,287	0	82.9%	82.9%	0.0%
VII.	Governors and Legislative	2,070	2,070	0	84.5%	84.5%	0.0%
VIII.	3% Substantial Substitute	281,500	281,546	46	46.5%	46.5%	0.0%
IX.	Tier II - Hybrid Plans						
	A. Public Employees	85,223	85,689	466	90.3%	90.2%	-0.1%
	B. Public Safety and Firefighter	16,804	17,650	846	87.2%	86.7%	-0.5%
X.	Grand Total	$ 4,608,617	$ 4,653,883	$ 45,266	88.8%	88.7%	-0.1%

[1] Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2021 actuarial valuation.