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.