URS Fiscal Analysis of 2022 1st Substitute 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, 1st Substitute H.B. 61, Postretirement Reemployment Amendments, has the following fiscal impact on URS, affected participating employers, and members:

Increase in unfunded actuarial accrued liability (UAAL):	Increase in cost for affected participating employers for Fiscal Year 2022-2023:	Increase in actuarially determined contribution rates:
$6.9 Million	$7.4 Million, one-time	See Exhibits for detailed information about the one-year contribution rate increases, but ranges are: • Tier 1 Public Employees' System: Increases ranging from 0.0% to 0.06% • Tier 1 Public Safety System Funds: Increases ranging from 0.53% to 1.47%

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 May 4, 2022. 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 with this bill would allow classroom teachers and public safety members to become reemployed, on up to a 50% time basis, after 60-days and before their 1-year anniversary of their retirement and continue to receive their monthly retirement allowance (regardless of their earnings). Also, a qualifying working retiree may not receive employer paid benefits. In addition, this substitute version of the bill would limit this return to work opportunity to applicable members who are retired prior to July 1, 2022.

Discussion and Actuarial Analysis

Due to the temporary window created by the substitute version of the bill, this analysis is based on an increase in the retirement rates by 2.0% at each age under 65 for educators and the base retirement rates for public safety members by 3.0% for each age under 60, but only for the 2022 calendar year (valuation systems model decrements on whole-year increments). These adjustments are slightly higher than the analysis for the original version of the bill due to an anticipated pent-up demand, but are only applicable for one calendar year.

The period to finance the increase in the actuarially accrued liability is determined by URS and based upon the actuary's recommendation. The actuary believes it is fiscally responsible and best practice if the impact on the contribution requirement is consistent with the effective period of the benefit enhancement, which is one fiscal year in this case. As a result, the actuary recommends to the Utah State Retirement Board that the cost associated with the this version of the bill be entirely financed in the FYE 2023 contribution rate (i.e. the contribution rate beginning July 1, 2022 and ending June 30, 2023).

The fiscal impact provided in the attached exhibits reflect the benefit changes in this legislation. The dollar amount increase in the FY 2022-2023 only contribution requirement for all funds is $7.4 million, which is slightly higher than the change in the unfunded liability of $6.9 million, due to timing differences as the liability is determined as of January 1, 2021, and the contributions begin 18-months after the valuation date. This is a one-time increase and not an ongoing 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.

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 from this bill is $6.9 million.

There is no additional cost for either Tier 2 Hybrid Retirement System because the actuary does not expect any members in these systems to qualify and benefit under this temporary, limited window.

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 because the increased contribution rate will apply to the entire payroll of members covered by the fund, which results in increased cost for employers 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.

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).

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’ actuary is 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.

Generally, URS is also neither for nor against proposed legislative changes or bills. However, URS must communicate candidly about and take a position regarding legislation that raises administration, operational, and legal problems for the Office and its stakeholders. This is the case with the substitute version of this bill in several respects. First, the effective date of May 4, 2022, the normal effective date for bills (60 days after adjournment), does not allow the Office sufficient time to change systems’ programming before the benefit changes take legal effect. Also, having a temporary, limited window is anticipated to cause a rush in retirements among the qualifying group of members, which may include those who can purchase up to five years of service credit. This rush would come at the early summer which sees the most retirements already due to educators' retirements in conjunction with the end of the traditional school year. URS thinks this scenario would cause legal/compliance issues for the plan and frustrate employer and member stakeholders relating to retirement processing, employer reporting of rehires using the Office systems, pay amortization contributions on the retirees, and have the system not reject monthly retirement checks for retirees who qualify under the new exception. To address these problems, URS has requested the sponsor to delay the effective date of these benefits changes and eliminate or lengthen the window.

Administrative Cost Analysis

As with all bills that alter benefit design or make substantive benefit modifications, implementation of this bill will likely result in administrative costs, but these are not readily direct, measurable costs for URS.

Proposed Legislation 2022 H.B. 61 1st Sub.

Amend the PostRetirement Reemployment Provisions for Public Safety Members and Teachers
Such that Qualified Members Who Retire Prior to July 1, 2022, 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%	14.60%	0.06%	1,776	1,785	9
	C. Higher Education	13.53%	13.55%	0.02%	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%	19.09%	0.06%	542,626	544,980	2,354
	C. Higher Education	18.02%	18.04%	0.02%	39,091	39,149	58
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	19.66%	20.55%	0.89%	466	497	31
	B. Other Division A (4% COLA)	19.26%	20.42%	1.16%	21	23	2
	C. Other Division B (2.5% COLA)	22.16%	22.98%	0.82%	20	21	1
	D. Other Division B (4% COLA)	14.91%	15.46%	0.55%	13	14	1
IV.	Public Safety Noncontributory						
	A. State	32.80%	33.83%	1.03%	36,243	37,834	1,591
	B. Other Division A (2.5% COLA)	30.99%	31.88%	0.89%	36,397	37,953	1,556
	C. Other Division A (4% COLA)	30.79%	31.95%	1.16%	10,073	10,623	550
	D. Salt Lake City	40.84%	41.78%	0.94%	12,677	13,031	354
	E. Ogden	41.31%	42.19%	0.88%	2,115	2,179	64
	F. Provo	38.40%	39.49%	1.09%	2,106	2,186	80
	G. Logan	37.56%	39.03%	1.47%	896	946	50
	H. Bountiful	43.41%	44.25%	0.84%	877	898	21
	I. Other Division B (2.5% COLA)	31.59%	32.41%	0.82%	19,244	19,925	681
	J. Other Division B (4% COLA)	24.82%	25.37%	0.55%	976	1,015	39
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%	9.82%	0.00%	238,993	238,993	0
	B. Public Safety and Firefighter	16.59%	16.59%	0.00%	46,121	46,121	0
VIII.	Grand Total				$ 1,142,217	$ 1,149,658	$ 7,441

[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.

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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	16,632	8	97.4%	97.4%	0.0%
	C. Higher Education	3,729	3,730	1	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	2,915,949	2,210	87.7%	87.7%	0.0%
	C. Higher Education	134,501	134,557	56	93.3%	93.3%	0.0%
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	3,289	3,318	29	97.2%	97.2%	0.0%
	B. Other Division A (4% COLA)	164	166	2	99.2%	99.2%	0.0%
	C. Other Division B (2.5% COLA)	121	122	1	99.6%	99.6%	0.0%
	D. Other Division B (4% COLA)	16	17	1	99.8%	99.8%	0.0%
IV.	Public Safety Noncontributory						
	A. State	174,321	175,788	1,467	88.8%	88.7%	-0.1%
	B. Other Division A (2.5% COLA)	168,778	170,211	1,433	87.4%	87.3%	-0.1%
	C. Other Division A (4% COLA)	44,435	44,941	506	89.0%	88.9%	-0.1%
	D. Salt Lake City	85,532	85,859	327	79.9%	79.8%	-0.1%
	E. Ogden	17,139	17,198	59	80.8%	80.8%	0.0%
	F. Provo	14,206	14,280	74	80.8%	80.7%	-0.1%
	G. Logan	6,106	6,153	47	84.3%	84.2%	-0.1%
	H. Bountiful	6,396	6,415	19	78.2%	78.1%	-0.1%
	I. Other Division B (2.5% COLA)	84,772	85,401	629	85.0%	84.9%	-0.1%
	J. Other Division B (4% COLA)	737	773	36	98.7%	98.7%	0.0%
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	281,523	23	46.5%	46.5%	0.0%
IX.	Tier II - Hybrid Plans						
	A. Public Employees	85,223	85,223	0	90.3%	90.3%	0.0%
	B. Public Safety and Firefighter	16,804	16,804	0	87.2%	87.2%	0.0%
X.	Grand Total	$ 4,608,617	$ 4,615,545	$ 6,928	88.8%	88.8%	0.0%

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