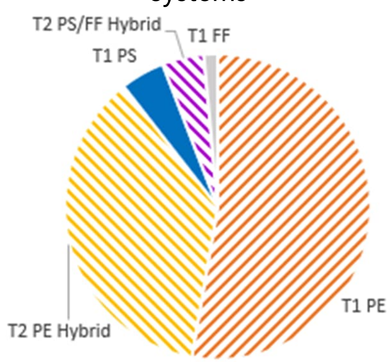
URS Fiscal Analysis of 2023 H.B. 126, "Postretirement Reemployment Modifications"

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, 2023 H.B. 126, "Postretirement Reemployment Modifications," has the following fiscal impact on URS, affected participating employers, and members:

Affected Systems/ Employee Groups (Gray= system not affected; Hash= some members of system are eligible)	Fiscal Impact: Increase in unfunded actuarial accrued liability (UAAL) Change in funded status	Fiscal Impact: Increase in actuarially determined contribution rates	Fiscal Impact: Annual cost for Fiscal Year 2023-2024
All T1 PS & Portions of T2 PS & Public Employees' (PE) Systems  *Note: For T2 PS/FF, only PS members are eligible for the new exception. For T1 & T2 PE, only teachers are eligible.* Tier 1 Systems' Actuarial Accrued Liability (except FF)= $39.75 Billion Tier 2 Systems' Actuarial Accrued Liability = $1.29 Billion	$72.75 Million Tier 1 PE Systems: Range from 0.00% to -0.20%. Tier 1 PS: Range from -0.10% to -0.70%. Tier 2 PE Hybrid System: -0.10% Tier 2 PS & FF Hybrid System: -1.0%	Tier 1 PE: Increases ranging from 0.00% to 0.12% Tier 1 PS: Increases ranging from 0.82% to 1.19% Tier 2 PE Hybrid System: 0.02% Tier 2 PS & FF Hybrid System: 0.21% (Member required contributions increase)	$9.24 Million for all affected Systems (From $1.05 to $1.06 Billion)

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, 2024. 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.

One current Postretirement Reemployment Restrictions exception allows reemployment for retirees who are reemployed after 60 days with a bona fide termination, don't receive employer provided benefits, and whose salary is limited during a calendar year ($18,059.82 for 2022).

This bill would create a new exception allowing a retiree who was, at the time of retirement, only a public safety service employee or a teacher to be reemployed with a participating employer within the one-year separation period if the retiree does not earn more than $35,000 per year. Earnings limitations are adjusted annually for inflation.

Discussion and Actuarial Analysis

The fiscal impact provided in the attached exhibits reflect the benefit changes in this legislation.

Note, the exemption in this proposed legislation does not apply to firefighters and non-teachers in the Public Employees' system. Some of the public employee funds include a mix of members who are teachers and non-teachers. However, all participating employers in each public employee fund pays the same contribution rate. As a result, employers that do not have teachers will still incur a cost increase even though their employees will not benefit from this legislation. This comment should not be interpreted as advocacy for or against against the proposed legislation. Rather this comment is to notify retirement stakeholders regarding this proposed change and its costs.

The actuary also notes that the cost of further changes in the earnings limit may not have a linear cost impact due to the interaction with the other "50% of final average earnings" constraint that remains in statute.

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.

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 a full-time basis, which may result in employers and retirees lobbying for an increase in the current proposed limitation of $35,000. 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 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 administrative costs, but these are not readily direct, measurable costs for URS.

Proposed Legislation 2023FL-0636/001
Fiscal Impact of Increasing the Earnings Limit to $35k for Public Safety Members and Educators

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 2023/2024 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	8.86%	8.86%	0.00%	$ 1,296	$ 1,296	$ 0
	B. State and School	12.62%	12.74%	0.12%	1,321	1,334	13
	C. Higher Education	9.47%	9.51%	0.04%	346	348	2
II.	Public Employees Noncontributory						
	A. Local Government	12.87%	12.87%	0.00%	106,173	106,173	0
	B. State and School	17.11%	17.23%	0.12%	476,439	480,447	4,008
	C. Higher Education	13.96%	14.00%	0.04%	28,211	28,305	94
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	16.81%	17.71%	0.90%	399	423	24
	B. Other Division A (4% COLA)	16.82%	17.85%	1.03%	21	23	2
	C. Other Division B (4% COLA)	9.26%	10.45%	1.19%	5	6	1
IV.	Public Safety Noncontributory						
	A. State	29.16%	30.09%	0.93%	29,778	30,823	1,045
	B. Other Division A (2.5% COLA)	28.14%	29.02%	0.88%	30,959	32,066	1,107
	C. Other Division A (4% COLA)	28.40%	29.36%	0.96%	8,100	8,415	315
	D. Salt Lake City	36.51%	37.48%	0.97%	11,167	11,456	289
	E. Ogden	37.05%	37.92%	0.87%	1,842	1,885	43
	F. Provo	34.69%	35.65%	0.96%	1,699	1,746	47
	G. Logan	32.39%	33.41%	1.02%	733	757	24
	H. Bountiful	36.52%	37.34%	0.82%	738	753	15
	I. Other Division B (2.5% COLA)	28.90%	29.80%	0.90%	17,229	17,784	555
	J. Other Division B (4% COLA)	19.17%	20.30%	1.13%	635	702	67
V.	Firefighters[3]						
	A. Division A	7.27%	7.27%	0.00%	2,391	2,391	0
	B. Division B	-0.12%	-0.12%	0.00%	(97)	(97)	0
VI.	Judges[3]	44.91%	44.91%	0.00%	9,939	9,939	0
VII.	Tier II - Hybrid Plans[4]						
	A. Public Employees	9.74%	9.76%	0.02%	272,474	273,163	689
	B. Public Safety and Firefighter	16.26%	16.47%	0.21%	52,929	53,832	903
VIII.	Grand Total				$ 1,054,727	$ 1,063,970	$ 9,243

[1] Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2022 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.

To model this fiscal cost, we have assumed that retirement rates will be +2.40% at each age prior to age 60 for public safety. Similarly, the retirement rates will be +2.40% at each age prior to age 65 for educators.

Proposed Legislation 2023FL-0636/001
Fiscal Impact of Increasing the Earnings Limit to $35k for Public Safety Members and Educators

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	$ 8,911	$ 8,911	0	98.0%	98.0%	0.0%
	B. State and School	11,703	11,871	168	98.2%	98.1%	-0.1%
	C. Higher Education	1,545	1,557	12	99.0%	99.0%	0.0%
II.	Public Employees Noncontributory						
	A. Local Government	229,167	229,167	0	96.6%	96.6%	0.0%
	B. State and School	2,005,216	2,043,607	38,391	91.9%	91.7%	-0.2%
	C. Higher Education	27,988	28,663	675	98.7%	98.6%	-0.1%
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	2,210	2,413	203	98.1%	97.9%	-0.2%
	B. Other Division A (4% COLA)	150	165	15	99.3%	99.2%	-0.1%
	C. Other Division B (4% COLA)	(70)	(62)	8	100.8%	100.7%	-0.1%
IV.	Public Safety Noncontributory						
	A. State	100,214	109,386	9,172	93.8%	93.3%	-0.5%
	B. Other Division A (2.5% COLA)	105,626	115,667	10,041	92.4%	91.7%	-0.7%
	C. Other Division A (4% COLA)	28,805	31,674	2,869	93.2%	92.6%	-0.6%
	D. Salt Lake City	67,551	69,951	2,400	84.6%	84.2%	-0.4%
	E. Ogden	13,608	13,982	374	85.2%	84.9%	-0.3%
	F. Provo	10,246	10,661	415	86.2%	85.7%	-0.5%
	G. Logan	3,883	4,116	233	90.2%	89.7%	-0.5%
	H. Bountiful	4,467	4,601	134	84.9%	84.5%	-0.4%
	I. Other Division B (2.5% COLA)	58,116	62,645	4,529	90.9%	90.3%	-0.6%
	J. Other Division B (4% COLA)	(2,941)	(2,574)	367	104.8%	104.2%	-0.6%
V.	Firefighters						
	A. Division A	(20,398)	(20,398)	0	107.0%	107.0%	0.0%
	B. Division B	(111,850)	(111,850)	0	109.5%	109.5%	0.0%
VI.	Judges	37,371	37,371	0	87.1%	87.1%	0.0%
VII.	Governors and Legislative	1,380	1,380	0	89.6%	89.6%	0.0%
VIII.	3% Substantial Substitute	267,908	267,961	53	48.5%	48.4%	-0.1%
IX.	Tier II - Hybrid Plans						
	A. Public Employees	80,489	81,431	942	92.9%	92.8%	-0.1%
	B. Public Safety and Firefighter	8,339	10,090	1,751	95.3%	94.3%	-1.0%
X.	Grand Total	$ 2,939,634	$ 3,012,386	$ 72,752	93.2%	93.0%	-0.2%

[1] Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2022 actuarial valuation.