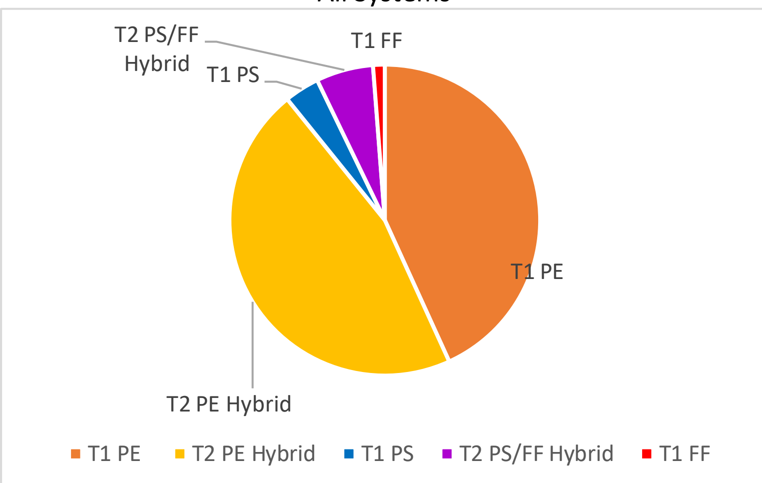
URS Fiscal Analysis of 2025 S.B. 20, "Utah Retirement Systems Amendments"

This document has been prepared by the Utah Retirement Systems (URS).

Summary of Fiscal Impact

If enacted, 2025 S.B. 20, "Utah Retirement System Amendments," will not result in a material fiscal impact on URS and its systems. This bill may impact affected participating employers and members as described below.

<table>
<tr>
<th><u>Affected Systems/ Employee Groups</u>
Those Systems' Actuarial Accrued Liability</th>
<th><u>Fiscal Impact:</u>
Increase in unfunded actuarial accrued liability (UAAL)

Change in funded status</th>
<th><u>Fiscal Impact:</u>
Increase in actuarially determined contribution rates</th>
<th><u>Fiscal Impact:</u>
Annual cost for Fiscal Year 2025-2026</th>
</tr>
<tr>
<td>All Systems


All Systems - Actuarial Accrued Liability: $47.7 Billion</td>
<td>No increase in UAAL.

No change to funded ratio.</td>
<td>No increase in contribution rates.</td>
<td>No general additional ongoing costs for all participating employers and members.</td>
</tr>
</table>

Proposed Legislative Provisions

This bill authorizes, but does not require, a participating employer to elect to "pick up" and pay required member contributions that exceed the statutory contribution cap (10% of pay) on behalf of its employees that are members of the Public Employees' Tier

2 Hybrid Retirement System.

The bill also requires an employer that elects to pick-up employee contributions for its Hybrid System employees to make an additional non-elective contribution to employees who have selected the Tier 2 Public Employees' Defined Contribution Plan (401(k) only option) equal to the picked-up amount.

For governmental defined benefit pension plans, under Section 414(h)(2) of the Internal Revenue Code, an employer may "pick-up" the employee's portion of the retirement contribution to a qualified pension plan. Employer retirement contributions are paid with pre-tax dollars and are not taxed to the employee until the benefit is distributed. Employee contributions to a defined benefit plan are treated as being paid with after-tax contributions, which are subject to employer and employee income tax and Social Security and Medicare tax (FICA) taxes. If an employer "picks-up" the employee contributions and certain tests are met, then the employee contributions are considered employer contributions, paid on a pre-tax basis, and are excludable from gross income.

Discussion and Actuarial Analysis: Employer and Member Impacts

This bill does not alter benefit design or make substantive benefit modifications. An employer's optional "pick-up" election would not increase the normal cost portion of the contribution rates but would result in higher employer contributions paid to cover the required employee contribution amounts.

For example, if an employer elected to "pick-up" all of the new required Tier 2 Public Employees' System member contributions of 0.81% of pay on behalf of these public employees (shown in column (1) in the attached exhibit of FY 2024-25 preliminary Tier 2 System contribution rates), then the employer would pay the total required contributions shown in column (7) of the left box in the attached exhibit. In addition, that employer's optional election would result in the amount being "picked-up" (0.81% in this example) being added to the employer required contributions shown in column (5) of the right box in the exhibit for the Tier 2 Defined Contribution Plan.

For a Tier 2 Public Employees' System member, if their employer does not elect to "pick-up" the new required Tier 2 Public Employees' System member contributions of 0.81% of pay, that amount must be contributed by the employee on an after-tax basis each pay period.

This legislation does not affect employer pick-ups for the Tier 2 Public Safety and Firefighter Retirement Systems.

Administrative Cost Analysis

Implementation of the bill is not expected to affect administrative costs, but if any such costs are incurred, they will be handled within existing budgets and will not result in direct, measurable costs for URS. Accordingly, this bill likely will not have a material fiscal impact on URS, nor will it increase actuarially determined contribution rates.