FISCAL ANALYSIS OF H.B. 347

Summary of Fiscal Impact

If enacted, H.B. 347, Retirement Window Amendments, would not affect retirement contribution rates for the state. Some local government members and employers in the Contributory Public Employees Retirement System may elect to transfer to the Noncontributory Public Employees Retirement System, which could result in an increase in the actuarially determined contribution rates of up to 0.08%, depending on the number of eligible employers and members that elect to make the transfer. The actual cost will depend on the actual elections made.

Proposed Legislative Provisions

H.B. 347 would permit some local government members and employers in the Contributory Public Employees Retirement System to elect to transfer to the Noncontributory Public Employees Retirement System. This window to transfer would only be open to employees of employers that had not previously elected to join the noncontributory system.

The proposal would open another transfer window during which any local government units that had not already done so could choose to join the noncontributory system, transferring from Fund 11 in the contributory system to Fund 15 in the noncontributory system. Then, the employees of any of the employers that do elect to join the noncontributory system during this window would be allowed to elect whether or not to join the noncontributory system. These employees could choose to remain in the contributory system even if the employer elects to join the noncontributory system. An election to transfer, whether made by an employer or employee, would be irrevocable.

This window would be available only to those members employed by units that had not previously elected to participate in the noncontributory system. Members in the contributory system that had already declined to join the noncontributory system in a previous election window would not be given a chance to make a new choice. The proposal would only affect current employees hired on or before June 30, 2011, since employees in the Tier II plan do not have an option to participate in the Tier I systems.

Discussion and Actuarial Analysis

This window would impact about 26 local government employers which currently employ 641 members. This is about 65% of the total active membership in the Local Government fund in the Contributory Public Employees Retirement System (Fund 11), and these members represent nearly 60% of the payroll of this fund.

The actuary has shown the impact on the employer contribution rates for FY 2016 for funds 11 and 15 in the table below.

Item	Contributory Local Government (Fund 11)	Noncontributory Local Government (Fund 15)
1. Actuarially determined contribution rate determined by the January 1, 2014 actuarial valuation:	12.71%	16.72%
2. Increase due to proposed transfer window:	0.08%	0.08%
3. Revised actuarially determined contribution rate (1. + 2.):	12.79%	16.80%
4. Current Board certified contribution rate for FY 2016:	14.46%	18.47%

The base rates shown above in row (1) are the actuarially determined contribution rates documented in the January 1, 2014 actuarial valuation report. Row (2) shows the estimated increase in the calculated employer contribution rates due to the proposed transfer window. The rates increase because the transferring members will receive somewhat better benefits—three-year Final Average Compensation, 25-and out reduced retirement, and better death benefits. Row (3) shows the new actuarially determined contribution rate after the transfers. These contribution rates remain below the Board certified rates shown on row (4).

If H.B. 347 is enacted, the actuary recommends that the Board should not adjust the FY 2016 employer contribution rates by the 0.08% increase shown on row (2). This fiscal impact assumes that all eligible employers and members elect to make the transfer. The actual cost will depend on the actual elections made. Therefore, the costs shown above are intended to provide the maximum possible fiscal impact.

Additional detail regarding the financial impact of providing a new transfer window is shown in the exhibit below following this discussion. Columns (2) and (3) show the projected FY 2016 contributions for Funds 11 and 15 based on the calculated contribution rates. Columns (4) and (5) show the contribution requirements for the transferring employers. Columns (6) and (7) show the contribution amounts after the transfers had occurred.

This information is summarized in the following table. The transfer window would require the non-transferring employers in Fund 11 and the employers already in Fund 15 to contribute an additional $739,000 to URS ($18,000 to Fund 11 and $721,000 to Fund 15). Employers transferring from Fund 11 to Fund 15 would experience a $615,000 decrease in retirement contributions.

	Remaining Fund 11 Employers	**Employers Transferring from Fund 11 to Fund 15**	**Original Fund 15 Employers**
Increase (Decrease) in Contributions[1]	$18,000	($615,000)	$721,000

[1] Based on the actuarially determined contribution rates.

The transferring employers experience a decrease in the calculated contribution requirements to the Retirement System because the calculated employer contribution rate for Fund 15 is lower than the combined member-plus-employer contribution rate for Fund 11. (This assumes that the employers are paying the member contribution as discussed below.) Some employers may utilize part of the decrease in cost by establishing an employer contribution to a 401(k) plan or similar type defined contribution plan. The actuary did not model this effect since an employer's decision to provide this type of benefit is discretionary.

The employers that are not part of the transfer will experience an increase in their calculated contribution rates, because the cost for the higher benefits given to the transferring members is spread across all employers in the two funds.

It is the actuary's understanding that for most or all employers, the member contributions are actually made from employer funds. i.e., the employer is paying this amount for its employees, without reducing the salary of the member. This is not just another way of saying that the member contribution is being treated as though it is an employer contribution, because the employer is picking up the member contribution under Section 414(h) of the Internal Revenue Code. An employer can pick up the member's contribution by reducing the member's salary, in which case the contribution is made from the member's funds, not the employer's. However, the actuary understands the employers in the contributory system actually pay the member's contribution from their own funds, so the actuary has taken this fact into account in this analysis.

Basis of Calculations

The actuary's calculations were based on the January 1, 2014 actuarial valuation, including member and financial data used for that valuation, as well as the assumptions and methods used in that valuation.

For purposes of the cost analysis discussed above, the actuary assumed that (i) all eligible local government units in the contributory system would join the noncontributory system, and (ii) all employees in these eligible contributory units would transfer to the noncontributory system. Of course, if fewer employers or members so elect, the impact will be smaller than is shown in the analysis below.

The actuary followed the usual procedure of assuming an asset transfer would take place between funds 11 and 15 to keep the difference in the employer contribution rates the same (4.01%). This accounts for the fact that the remaining employers in Fund 11 would see a contribution rate increase.

The contribution rates shown on the exhibit below are the actuarially calculated employer contribution rates without regard to the Board's decision under Utah Code Section 49-11-301(5) to hold the contribution rates at the prior year's level, if higher.

Utah Retirement Systems

Impact on Total Employer Contributions Under Proposed Transfer Window
Determined Based on Actuarial Valuation as of January 1, 2014

Impact on Fund 11

	All Current Contributory Local Government Units (Fund 11) 2014 Valuation Results		Local Government Units Transferring to Fund 15		Remaining Contributory Local Government Units (Fund 11) New Contribution Rate	
Item	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
1 Compensation (projected to FY2016)		$ 54,816,000		$ 32,163,000		$ 22,653,000
2. FY 2016 Contribution rates						
a. Employer contribution	12.71%	6,967,000	12.71%	4,088,000	12.79%	2,897,000
b. Employee contribution[1]	6.00%	3,289,000	6.00%	1,930,000	6.00%	1,359,000
c. Total	18.71%	10,256,000	18.71%	6,018,000	18.79%	4,256,000
3. Decrease in total Fund 11 contributions:						(6,000,000)
4. Increase in Fund 11 contribution rate:						0.08%
5. New money required for **remaining** Fund 11 employers:						$ 18,000

Impact on Fund 15

	All Current Noncontributory Local Government Units (Fund 15) 2014 Valuation Results		Local Government Units Transferring to Fund 15		All Noncontributory Local Government Units (Fund 15) After Transfer New Contribution Rate	
Item	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
1 Compensation (projected to FY2016)		$ 901,206,000		$ 32,163,000		$ 933,369,000
2. Valuation						
a. Employer contribution	16.72%	150,682,000	16.80%	5,403,000	16.80%	156,806,000
b. Employee contribution[1]	0.00%	0	0.00%	0	0.00%	0
c. Total	16.72%	150,682,000	16.80%	5,403,000	16.80%	156,806,000
3. Increase in total Fund 15 contributions: (*excluding* possible contributions to a 401(k) or other defined contibution plan)						6,124,000
4. Increase in Fund 15 contribution rate:						0.08%
5. New money required for **original** Fund 15 employers:						$ 721,000

[1] Assumes employee contributions are paid from employer funds, not just treated as employer pick-up contributions for tax purposes.