

URS Fiscal Analysis of 2016 H.B. 117

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. 117, Modifications to Postretirement Reemployment Restrictions, has the following fiscal impact on URS:

Increase in unfunded actuarial accrued liability:	Increase in annual cost for all participating employers:		Increase in actuarially determined contribution rates:
\$11.2 million	Total: \$1.2 million		See Exhibit 2 for detailed information about the contribution rate increases, but some examples are: <ul style="list-style-type: none"> • Tier I Public Employees Noncontributory Retirement System, State and School Fund: 0.03% increase • Tier II Public Employees, Hybrid Plan: 0.01% increase
	Amount of the annual cost increase financed by requiring employers to pay the full contribution rate (rather than just the amortization rate) on the salary of reemployed retirees: \$300,000	Amount of the annual cost increase financed by increases to the actuarially determined employer contribution rates: \$900,000	

If this legislation becomes enacted, there would be a \$1.2 million increase in the annual cost for the participating employers in URS. Of this increase, \$300,000 would be financed directly by the employers who employ working retirees. The remaining \$900,000 would be financed by all employers through an increase in the actuarially determined contribution rate. Also, the collective unfunded actuarial accrued liability of the participating employers will increase by \$11.2 million due to this legislation. Please refer to Exhibit 3 for the impact on the unfunded actuarial accrued liability and funded ratio for each fund.

As shown in Exhibit 2, the actuarially determined contribution rate for the Noncontributory State and School fund, Fund 16, would increase by 0.03% to 18.89%. The contribution rate for the Tier II Public Employee Hybrid Plan would increase by 0.01%, but would continue to remain noncontributory. Since the employer's cost is fixed at 10% of pay, the increased cost of the defined benefit plan would decrease the allocation to the members' defined contribution account. Please refer to Exhibits 1 and 2 for the impact on the actuarially determined contribution rates and annual cost impact for FY 2017 for each fund.

Proposed Legislative Provisions

H.B. 117 provides an exemption to the reemployment of retiree restrictions to allow a retiree to continue receiving their retirement allowance if they become employed as an educator at a Title I school.

To qualify for this exemption, the retiree must not be reemployed for at least 60 days from their retirement date and be reemployed by a different employer. The reemployed retiree shall not receive any employer provided retirement benefits, including additional service credit. However, the employer will make the full contribution to the Retirement System on the pay of the working retiree. This proposed legislation would become effective immediately upon enactment.

Discussion and Actuarial Analysis

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>. This Working Retiree Analysis reflects the actuary's 2015 study of historical experience as well as the most recent actuarial valuation of URS.

The requirement of the employers to contribute the full contribution rate acts like a "user fee" and places a direct cost on those employers who utilize the working retirees in their agency. However, this surcharge does not cover all the cost of the proposed changes. As a result, all employers would experience some increase in their contribution rates; even those employers that do not have Title I schools.

It has been demonstrated in prior analysis that it is more expensive for employers 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. There are many Title I schools, such as charter schools, that do not participate in URS. Since these schools do not participate in URS, retirees currently have the ability to retire and immediately seek employment at one of these schools and continue to receive their retirement allowance. H.B. 117 would expand the opportunity for retired teachers to return to work at Title I schools that participate in URS.

Data and Assumptions

This modeled analysis is based on the member and financial data that were used to prepare the January 1, 2015 actuarial valuation which was presented and adopted by the Board in August 2015.

We have previously determined the fiscal cost if the proposed working after retirement provisions were applied on a universal basis to all employers participating in URS. Please refer to our letter dated September 23, 2015 for that analysis. To identify the fiscal impact of H.B. 117, we allocated a proportionate share of the total cost documented in the September 23, 2015 letter. For example, since 8.4% of the total positions in Fund 16 are educators with a Title I school, the fiscal impact of H.B. 117 for Funding 16 is 9.2% of the total fiscal impact. Note, the proportionate share of the fiscal impact is slightly higher than the proportion of the positions to reflect a slight "incentive effect" or increased utilization of

working retirees at these employers. For this analysis we have assumed a 10% “incentive effect” (i.e. the proportionate share is multiplied by 1.1).

URS provided us a list of Title I schools, obtained from the Utah State Office of Education, (including the number of educators at each Title I school) in the state. We did not audit these lists but reviewed them for reasonableness. In aggregate, there are approximately 74,900 active members in URS (including the 2,700 active members in the Tier II DC Plan) that participate in a fund that includes Title I educators (i.e. Funds 12, 16, and the Tier II Public Employee Hybrid and DC Plans). Based on the data we received, there are approximately 5,700 Title I educator positions that are covered by URS. Note, our analysis only included the educator positions in Title I schools that earn benefits in URS, not the total number of educators at the school district level (i.e. employer level). Also, there are many Title I schools that do not participate in URS. We did not include these 2,100 positions in the proportionate share calculations because URS retirees can currently become employed by one of these schools immediately following retirement without affecting their retirement allowance.

Other Actuarial Comments

Our 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 our 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 reemployment provisions could impact the cost of other benefit programs, such as post-retirement health benefits. Our analysis does not include this possible effect.

While the actuarially determined contribution rates would continue to remain below the Board certified rates that are in effect for fiscal year 2017, Utah Code Subsection 49-11-301(5) provides the Board the ability to maintain the current certified contribution rates or increase the certified contribution rates to reflect the increased cost of the benefit enhancement. We suggest the Board discuss and consider increasing the contribution rates. The alternative is to maintain the current certified rates and extend the projected date the funds will attain a 100% funded status.

It should be noted that we are neither for nor against the proposed changes. Return to work rules for retirees is a policy decision for the Legislature and employers. Our goal is to inform the stakeholders of the impact on URS of changes to these rules. As a reminder, the information provided herein should provide stakeholders an idea of the magnitude of the fiscal impact and we recommend a specific fiscal analysis be performed on any proposed legislation rather than relying on the information contained herein.

Administrative Cost Analysis

As with all bills that alter benefit design or make substantive benefit modifications, implementation of H.B. 117 will likely result in some administrative costs. However, such costs will be handled within existing budgets, will not result in direct, measurable costs for URS, and will not result in an increase to actuarially determined contribution rates in addition to those discussed above resulting from the benefit modifications.

Exhibit 1

Impact on Actuarially Determined Contribution Rates and Annual Cost for Participating Employers (\$ in thousands)

Fund/Division (1)	Actuarially Determined Contribution Rates (Before Offset for Contributions on Working Retirees)			Annual Cost for FY 2017		
	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Increase
	(2)	(3)	(4)	(5)	(6)	(7)
I. Public Employees Contributory						
A. Local Government	11.49%	11.49%	0.00%	\$ 6,282	\$ 6,282	\$ 0
B. State and School	14.37%	14.41%	0.04%	5,423	5,434	11
II. Public Employees Noncontributory						
A. Local Government	15.50%	15.50%	0.00%	135,126	135,126	0
B. State and School	18.86%	18.90%	0.04%	536,277	537,381	1,104
III. Public Safety Contributory						
A. State	23.50%	23.50%	0.00%	32	32	0
B. Other Division A (2.5% COLA)	16.75%	16.75%	0.00%	471	471	0
C. Other Division A (4% COLA)	19.00%	19.00%	0.00%	60	60	0
D. Other Division B (2.5% COLA)	17.22%	17.22%	0.00%	12	12	0
E. Other Division B (4% COLA)	19.62%	19.62%	0.00%	49	49	0
IV. Public Safety Noncontributory						
A. State	35.12%	35.12%	0.00%	40,444	40,444	0
B. Other Division A (2.5% COLA)	28.12%	28.12%	0.00%	31,325	31,325	0
C. Other Division A (4% COLA)	30.42%	30.42%	0.00%	10,239	10,239	0
D. Salt Lake City	41.40%	41.40%	0.00%	12,447	12,447	0
E. Ogden	42.24%	42.24%	0.00%	2,533	2,533	0
F. Provo	37.18%	37.18%	0.00%	2,054	2,054	0
G. Logan	37.83%	37.83%	0.00%	964	964	0
H. Bountiful	45.84%	45.84%	0.00%	864	864	0
I. Other Division B (2.5% COLA)	27.73%	27.73%	0.00%	15,999	15,999	0
J. Other Division B (4% COLA)	30.18%	30.18%	0.00%	1,436	1,436	0
V. Firefighters ²						
A. Division A	9.34%	9.34%	0.00%	2,514	2,514	0
B. Division B	9.06%	9.06%	0.00%	7,823	7,823	0
VI. Judges ²	48.48%	48.48%	0.00%	8,052	8,052	0
VII. Tier II - Hybrid Plans ³						
A. Public Employees	7.99%	8.00%	0.01%	73,017	73,083	66
B. Public Safety and Firefighter	10.16%	10.16%	0.00%	8,312	8,312	0
VIII. Grand Total				\$ 901,755	\$ 902,936	\$ 1,181

¹ The actuarially determined contribution rates may be less than the Board certified 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), which causes the unfunded liability to be paid down sooner.

² These contribution rates are before reflecting offsets for insurance premiums and court fees.

³ These rates for the Tier II Hybrid Funds exclude the Tier I amortization payment and the 3% Substantial Substitute.

Exhibit 2

Impact on Annual Cost and Contribution Rates When Employers Contribute the Full Board Certified Rate on the Payroll of Working Retirees (\$ in thousands)

Fund/Division (1)	Impact on Annual Cost		Impact on Actuarially Determined Rate			
	Total Cost Increase (2)	Cost Increase Financed by Working Retiree Pay (3)	Cost Increase Financed by the Employer Certified Rates (4)	Total Increase in Actuarially Determined Rate (5)	Due to Increased Contributions on Working Retiree Pay (6)	Net Increase in Actuarially Determined Rate (7)
I. Public Employees Contributory						
A. Local Government	\$ 0	\$ 0	\$ 0	0.00%	0.00%	0.00%
B. State and School	11	4	7	0.04%	-0.01%	0.03%
II. Public Employees Noncontributory						
A. Local Government	0	0	0	0.00%	0.00%	0.00%
B. State and School	1,104	301	803	0.04%	-0.01%	0.03%
III. Public Safety Contributory						
A. State	0	0	0	0.00%	0.00%	0.00%
B. Other Division A (2.5% COLA)	0	0	0	0.00%	0.00%	0.00%
C. Other Division A (4% COLA)	0	0	0	0.00%	0.00%	0.00%
D. Other Division B (2.5% COLA)	0	0	0	0.00%	0.00%	0.00%
E. Other Division B (4% COLA)	0	0	0	0.00%	0.00%	0.00%
IV. Public Safety Noncontributory						
A. State	0	0	0	0.00%	0.00%	0.00%
B. Other Division A (2.5% COLA)	0	0	0	0.00%	0.00%	0.00%
C. Other Division A (4% COLA)	0	0	0	0.00%	0.00%	0.00%
D. Salt Lake City	0	0	0	0.00%	0.00%	0.00%
E. Ogden	0	0	0	0.00%	0.00%	0.00%
F. Provo	0	0	0	0.00%	0.00%	0.00%
G. Logan	0	0	0	0.00%	0.00%	0.00%
H. Bountiful	0	0	0	0.00%	0.00%	0.00%
I. Other Division B (2.5% COLA)	0	0	0	0.00%	0.00%	0.00%
J. Other Division B (4% COLA)	0	0	0	0.00%	0.00%	0.00%
V. Firefighters						
A. Division A	0	0	0	0.00%	0.00%	0.00%
B. Division B	0	0	0	0.00%	0.00%	0.00%
VI. Judges						
A. Judges	0	0	0	0.00%	0.00%	0.00%
VII. Tier II - Hybrid Plans						
A. Public Employees	66	13	53	0.01%	0.00%	0.01%
B. Public Safety and Firefighter	0	0	0	0.00%	0.00%	0.00%
VIII. Grand Total	\$ 1,181	\$ 318	\$ 863			

Exhibit 3

Impact on Unfunded Actuarial Accrued Liability and Funded Ratio by Fund Determined on an Actuarial Value of Asset Basis (\$ in thousands)

Fund/Division (1)	Unfunded Actuarial Accrued Liability			Funded Ratio		
	Current (2)	Proposed Legislation (3)	Increase (4)	Current (5)	Proposed Legislation (6)	Decrease (7)
I. Public Employees Contributory						
A. Local Government	\$ 48,655	\$ 48,655	\$ 0	89.8%	89.8%	0.0%
B. State and School	48,064	48,178	114	94.1%	94.1%	0.0%
II. Public Employees Noncontributory						
A. Local Government	572,485	572,485	0	87.0%	87.0%	0.0%
B. State and School	2,750,262	2,761,319	11,057	85.5%	85.4%	-0.1%
III. Public Safety Contributory						
A. State	250	250	0	99.5%	99.5%	0.0%
B. Other Division A (2.5% COLA)	2,949	2,949	0	97.7%	97.7%	0.0%
C. Other Division A (4% COLA)	394	394	0	98.5%	98.5%	0.0%
D. Other Division B (2.5% COLA)	63	63	0	99.8%	99.8%	0.0%
E. Other Division B (4% COLA)	282	282	0	96.6%	96.6%	0.0%
IV. Public Safety Noncontributory						
A. State	213,206	213,206	0	81.0%	81.0%	0.0%
B. Other Division A (2.5% COLA)	117,224	117,224	0	87.0%	87.0%	0.0%
C. Other Division A (4% COLA)	42,560	42,560	0	83.9%	83.9%	0.0%
D. Salt Lake City	84,679	84,679	0	73.1%	73.1%	0.0%
E. Ogden	17,879	17,879	0	75.1%	75.1%	0.0%
F. Provo	12,469	12,469	0	76.7%	76.7%	0.0%
G. Logan	6,258	6,258	0	79.2%	79.2%	0.0%
H. Bountiful	6,323	6,323	0	73.1%	73.1%	0.0%
I. Other Division B (2.5% COLA)	52,569	52,569	0	81.7%	81.7%	0.0%
J. Other Division B (4% COLA)	5,578	5,578	0	85.5%	85.5%	0.0%
V. Firefighters						
A. Division A	(195)	(195)	0	100.1%	100.1%	0.0%
B. Division B	18,035	18,035	0	97.9%	97.9%	0.0%
VI. Judges	35,489	35,489	0	81.6%	81.6%	0.0%
VII. Tier II - Hybrid Plans ²						
A. Public Employees	(7,119)	(7,094)	25	108.7%	108.7%	0.0%
B. Public Safety and Firefighter	(1,234)	(1,234)	0	116.6%	116.6%	0.0%
VIII. Grand Total	\$ 4,027,125	\$ 4,038,321	\$ 11,196	85.5%	85.4%	-0.1%