

URS Fiscal Analysis of 2016 6th Substitute H.B. 86

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, 6th Substitute H.B. 86, Postretirement Reemployment Amendments, 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:
\$6.6 million	\$721,000	See Exhibit 1 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: 0.02% increase • Tier II Public Employee Hybrid Plan: 0.01% increase

If this legislation becomes enacted, there would be a \$721,000 increase in the annual cost for the public employee funds of URS. There would not be a cost increase for the public safety and firefighter funds. Also, the collective unfunded actuarial accrued liability of the participating employers will increase by \$6.6 million due to this legislation.

The actuarially determined contribution rate for the Tier I Noncontributory State and School Fund, Fund 16, would increase by 0.02%. The contribution rates for the Tier II Public Employee Hybrid Plan would increase by 0.01%. However, 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 accounts.

Please refer to the attached exhibits for detailed fiscal impact information for each fund.

Proposed Legislative Provisions

This particular bill would increase the earnings limit that applies to retirees who become reemployed between 60 days and one year of their initial retirement date. Currently URS will suspend the retirement allowance for members who become reemployed after 60 days but within one year of their initial date of retirement if the member's compensation during any calendar year exceeds the lesser of \$15,000 or 50% of the member's final average salary (FAS).

The proposed legislation would increase the earnings limit to be the lesser of \$18,000 or 50% of the member's FAS. The \$18,000 limit would be adjusted in the future by the annual change in the Consumer Price Index.

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.

Increasing the earnings limit from \$15k to \$18k is approximately 60% cost of increasing the earnings limit from \$15k to \$20k that was documented for H.B. 50. To model the anticipated change in retirement behavior, we analyzed the earnings distribution for each employee type to identify the opportunity for the retirees to seek reemployment in a position with compensation below the new earnings limit. The analysis indicates that a \$3,000 increase in the compensation limit would likely result in a small increase in the rate that non-educator public employees would retire and seek reemployment, but would not measurably increase the opportunity for public safety members, firefighters, and educators to retire and find employment within the same occupation that would be below the new earnings limit. Although public safety, firefighters, and educators could retire and seek employment in a public employee position, the historical experience shows this happens on a relatively infrequent basis.

This 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.

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.

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 the retirement system of changes to these rules.

Administrative Cost Analysis

As with all bills that alter benefit design or make substantive benefit modifications, implementation of H.B. 86 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

6th Substitute to HB 86 Impact on Actuarially Determined and Board Certified Contribution Rates

Fund/Division	Actuarially Determined Contribution Rates					Applicable
	Current	Proposed Legislation	Total Increase	Offset from Contributions on Working Retiree Pay	Net Increase in Employer Actuarially Determined Rate	Board Certified Contribution Rate if Legislation is Enacted
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. Public Employees Contributory						
A. Local Government	11.49%	11.50%	0.01%	N/A	0.01%	14.47%
B. State and School	14.37%	14.39%	0.02%	N/A	0.02%	17.72%
II. Public Employees Noncontributory						
A. Local Government	15.50%	15.51%	0.01%	N/A	0.01%	18.48%
B. State and School	18.86%	18.88%	0.02%	N/A	0.02%	22.21%
III. Public Safety Contributory						
A. State	23.50%	23.50%	0.00%	N/A	0.00%	29.70%
B. Other Division A (2.5% COLA)	16.75%	16.75%	0.00%	N/A	0.00%	22.75%
C. Other Division A (4% COLA)	19.00%	19.00%	0.00%	N/A	0.00%	24.33%
D. Other Division B (2.5% COLA)	17.22%	17.22%	0.00%	N/A	0.00%	22.29%
E. Other Division B (4% COLA)	19.62%	19.62%	0.00%	N/A	0.00%	28.95%
IV. Public Safety Noncontributory						
A. State	35.12%	35.12%	0.00%	N/A	0.00%	41.35%
B. Other Division A (2.5% COLA)	28.12%	28.12%	0.00%	N/A	0.00%	34.04%
C. Other Division A (4% COLA)	30.42%	30.42%	0.00%	N/A	0.00%	35.71%
D. Salt Lake City	41.40%	41.40%	0.00%	N/A	0.00%	46.67%
E. Ogden	42.24%	42.24%	0.00%	N/A	0.00%	48.68%
F. Provo	37.18%	37.18%	0.00%	N/A	0.00%	42.16%
G. Logan	37.83%	37.83%	0.00%	N/A	0.00%	41.92%
H. Bountiful	45.84%	45.84%	0.00%	N/A	0.00%	47.33%
I. Other Division B (2.5% COLA)	27.73%	27.73%	0.00%	N/A	0.00%	32.20%
J. Other Division B (4% COLA)	30.18%	30.18%	0.00%	N/A	0.00%	38.94%
V. Firefighters ¹						
A. Division A	9.34%	9.34%	0.00%	N/A	0.00%	15.53%
B. Division B	9.06%	9.06%	0.00%	N/A	0.00%	18.30%
VI. Judges ¹	48.48%	48.48%	0.00%	N/A	0.00%	51.91%
VII. Tier II - Hybrid Plans ²						
A. Public Employees	7.99%	8.00%	0.01%	N/A	0.01%	8.23%
B. Public Safety and Firefighter	10.16%	10.16%	0.00%	N/A	0.00%	10.67%
VIII. Grand Total						

¹ These contribution rates are before reflecting offsets for insurance premiums and court fees.

² These rates for the Tier II Hybrid Funds exclude the Tier I amortization payment.

Summary of Proposed Provisions:

- Earnings limit for all working retirees who return to employment after 60 days and before 1 year following their retirement date from \$15k to \$18k.

Exhibit 2

5th Substitute to HB 86 Increase in Annual Cost by Fund (\$ in thousands)

Fund/Division (1)	Impact on Annual Cost		
	Total Cost Increase (2)	Cost Increase Financed by Contributions on Working Retiree Pay (3)	Cost Increase Financed by the Employer Certified Rates (4)
I. Public Employees Contributory			
A. Local Government	\$ 3	N/A	\$ 3
B. State and School	5	N/A	5
II. Public Employees Noncontributory			
A. Local Government	58	N/A	58
B. State and School	523	N/A	523
III. Public Safety Contributory			
A. State	0	N/A	0
B. Other Division A (2.5% COLA)	0	N/A	0
C. Other Division A (4% COLA)	0	N/A	0
D. Other Division B (2.5% COLA)	0	N/A	0
E. Other Division B (4% COLA)	0	N/A	0
IV. Public Safety Noncontributory			
A. State	0	N/A	0
B. Other Division A (2.5% COLA)	0	N/A	0
C. Other Division A (4% COLA)	0	N/A	0
D. Salt Lake City	0	N/A	0
E. Ogden	0	N/A	0
F. Provo	0	N/A	0
G. Logan	0	N/A	0
H. Bountiful	0	N/A	0
I. Other Division B (2.5% COLA)	0	N/A	0
J. Other Division B (4% COLA)	0	N/A	0
V. Firefighters			
A. Division A	0	N/A	0
B. Division B	0	N/A	0
VI. Judges	0	N/A	0
VII. Tier II - Hybrid Plans			
A. Public Employees	133	N/A	133
B. Public Safety and Firefighter	0	N/A	0
VIII. Grand Total	\$ 721	N/A	\$ 721

Summary of Proposed Provisions:

- Earnings limit for all working retirees who return to employment after 60 days and before 1 year following their retirement date from \$15k to \$18k.

Exhibit 3

6th Substitute to HB 86 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		Current (5)	Proposed	
		Legislation (3)	Increase (4)		Legislation (6)	Decrease (7)
I. Public Employees Contributory						
A. Local Government	\$ 48,655	\$ 48,691	\$ 37	89.8%	89.8%	0.0%
B. State and School	48,064	48,066	3	94.1%	94.1%	0.0%
II. Public Employees Noncontributory						
A. Local Government	572,485	573,342	857	87.0%	87.0%	0.0%
B. State and School	2,750,262	2,755,902	5,640	85.5%	85.5%	0.0%
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)	(7,090)	29	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	\$ 4,033,690	\$ 6,565	85.5%	85.4%	-0.1%

Summary of Proposed Provisions:

- Earnings limit for all working retirees who return to employment after 60 days and before 1 year following their retirement date from \$15k to \$18k.