

## Notes to the Basic Financial Statements (Continued)

December 31, 2014



## Note 5

## Net Pension Liability of Employers

The net pension liability (i.e., the retirement system's liability determined in accordance with GASB No. 67 less the fiduciary net position) as of December 31, 2014, is as shown below.

System	(1) Total Pension Liability	(2) Plan Fiduciary Net Position	(3) Employers' Net Pension Liability/(Asset) (1) - (2)	(4) Plan Fiduciary Net Position as a % of the Total Pension Liability (2) / (1)	(5) Projected Covered Employee Payroll	(6) Net Pension Liability/(Asset) as a % of Covered Employee Payroll (3) / (5)
Noncontributory Retirement System	\$ 24,043,264	21,096,512	2,946,752	87.7%	\$ 3,570,912	82.5%
Contributory Retirement System	1,309,800	1,269,991	39,809	97.0	90,623	43.9
Public Safety Retirement System	3,360,027	2,899,386	460,641	86.3	360,750	127.7
Firefighters Retirement System	1,014,328	1,031,039	(16,711)	101.6	111,305	(15.0)
Judges Retirement System	192,285	163,834	28,451	85.2	16,072	177.0
Utah Governors and Legislators Retirement Plan	12,267	10,366	1,901	84.5	928	204.8
Tier 2 Public Employees System	86,261	89,291	(3,030)	103.5	492,882	(0.6)
Tier 2 Public Safety and Firefighter System	7,226	8,705	(1,479)	120.5	35,019	(4.2)
<b>Total</b>	<b>\$ 30,025,458</b>	<b>26,569,124</b>	<b>3,456,334</b>	<b>88.5%</b>	<b>\$ 4,678,491</b>	<b>73.9%</b>

Actuarial valuation of the ongoing Systems involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in 2014 and the next experience study is scheduled to be conducted in 2017. The Schedule of Employers' Net Pension Liability presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The Total Pension Liability as of December 31, 2014, is based on the results of an actuarial

valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures.

A summary of the actuarial assumptions as of the latest actuarial valuation is shown on page 75.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of December 31, 2014, are summarized in the table on page 75.

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## Summary of Actuarial Assumptions

	Noncontributory	Contributory	Public Safety	Firefighters	Judges	Governors and Legislators	Tier 2 Public Employees	Tier 2 Public Safety and Firefighter
Valuation date	1/1/14	1/1/14	1/1/14	1/1/14	1/1/14	1/1/14	1/1/14	1/1/14
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Actuarial assumptions:								
Investment rate of return	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected salary increases	3.50-10.75%	3.50-10.75%	3.50-9.25%	3.50-9.75%	3.50%	None	3.50-10.75%	3.50-9.25%
Inflation rate	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Post-retirement cost-of-living adjustment	2.75%	2.75%	2.50% or 2.75% Depending on employer	2.75%	2.75%	2.75%	2.50%	2.50%

Note: All post-retirement cost-of-living adjustments are noncompounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual CPI increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

## Target Allocations

Asset Class	Target Asset Allocation	Expected Return Arithmetic Basis	
		Real Return Arithmetic Basis	Long-term Expected Portfolio Real Rate of Return*
Equity securities	40%	7.06%	2.82%
Debt securities	20	0.80	0.16
Real assets	13	5.10	0.66
Private equity	9	11.30	1.02
Absolute return	18	3.15	0.57
Cash and cash equivalents	0	0.00	0.00
Totals	100%		5.23%
	Inflation		2.75
	Expected arithmetic nominal return		7.98%

\*The total URS Defined Benefit long-term expected rate of return is 7.50%. It is comprised of a 2.75% inflation rate, 0.35% for administrative and investment expenses, and a real long-term expected rate of return of 5.10%.

## Changes in Discount Rate

(dollars in thousands)

System	Net Pension Liability/(Asset) 1% Decrease (6.50%)	Net Pension Liability/(Asset) Current Discount Rate (7.50%)	Net Pension Liability/(Asset) 1% Increase (8.50%)
Noncontributory Retirement System	\$ 6,047,671	2,946,757	352,336
Contributory Retirement System	173,985	39,810	(73,300)
Public Safety Retirement System	930,005	460,643	76,263
Firefighters Retirement System	121,945	(16,711)	(130,851)
Judges Retirement System	48,555	28,454	11,192
Utah Governors and Legislators Retirement Plan	3,101	1,899	884
Tier 2 Public Employees System	22,287	(3,032)	(22,121)
Tier 2 Public Safety and Firefighter System	632	(1,478)	(3,095)
Total	\$ 7,348,181	3,456,342	211,308

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The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates under Utah State Code. Based on those assumptions, the Systems' fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension

plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In accordance with GASB 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table on page 75 presents the net pension liability of the participating employers calculated using the discount rate of 7.50%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

## Note 6

### Employer Contribution Requirements

Employer contribution rates consist of (1) an amount for normal cost, the estimated amount necessary to finance benefits earned by the members during the current year, and (2) an amount for amortization of the unfunded or excess funded actuarial accrued liability over a closed 20-year amortization period. The rates are determined using the entry age actuarial cost method.

The schedule below summarizes contribution rates in effect as of December 31, 2014. Contributions made by employers and members were in accordance with actuarially computed funding requirements. Fire insurance premium taxes and court fees are considered as part of employer contributions in the schedule shown below for the Firefighters and Judges Systems, respectively. These contribution rates also include rates for a 3% benefit enhancement that is funded by the State. For contribution rate purposes the actuary evaluates the assets of the Systems based on a 5-year smoothed expected return wherein 20% of a year's excess or shortfall of expected return is recognized each year for five years.

Information with regard to contributions to the Systems, for the year ended December 31, 2014, is indicated in the schedule on page 85.

Member contributions in the 401(k), 457, Roth and traditional IRAs, total \$308,349,000, that in combination with the member contributions made in the Retirement Systems total \$346,849,000.

### Contribution Rates

December 31, 2014

System	Contribution Rates as a Percent of Covered Payroll		
	Member	Employer	Other
Noncontributory	—	18.47 - 22.19 %	—
Contributory	6.00 %	14.46 - 17.70	—
Public Safety:			
Noncontributory	—	32.20 - 48.68	—
Contributory	10.50 - 12.29	22.19 - 31.80	—
Firefighters:			
Division A	15.05	3.82	11.71%
Division B	16.71	6.59	11.71
Judges:			
Noncontributory	—	40.01	11.90
Governors and Legislators	—	\$ 411,489	—
Tier 2 Public Employees	—	14.94 - 18.27	—
Tier 2 Public Safety and Firefighter	—	10.80 - 37.07	—

### Required Contributions

(dollars in thousands)

System	Amount	Normal Cost
		Percent of Covered Payroll
Noncontributory Retirement System	\$ 506,283	14.18%
Contributory Retirement System	10,575	11.67
Public Safety Retirement System	85,130	23.60
Firefighters Retirement System	30,554	27.45
Judges Retirement System	4,638	30.52
Utah Governors and Legislators Retirement Plan	411	N/A
Tier 2 Public Employees System	37,299	10.56
Tier 2 Public Safety and Firefighter System	4,365	21.59
<b>Total</b>	<b>\$ 679,255</b>	