

URS Fiscal Analysis of 2016 S.B. 36

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, S.B. 36, Postretirement Employment Exceptions, 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:
\$142 million	Total: \$17,642,000		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: 0.19% increase • Tier I Public Safety Noncontributory Funds: increases ranging from .55% to 1.23% • Tier I Firefighters' Retirement System: <ul style="list-style-type: none"> ○ Division A: 1.03% increase ○ Division B: 1.33% 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: <div style="text-align: right;">\$7,367,000</div>	Amount of the annual cost increase financed by increases to the actuarially determined employer contribution rates: <div style="text-align: right;">\$10,275,000</div>	

If this legislation becomes enacted, there would be a \$17.6 million increase in the annual cost for the participating employers in URS. Also, the collective unfunded actuarial accrued liability of the participating employers will increase by \$142 million due to this legislation.

The actuarially determined contribution rate for the Tier I Noncontributory State and School Fund, Fund 16, would increase by 0.19% to 19.05%. The actuarially determined contribution rates for the Noncontributory Public Safety Funds would experience increases ranging from 0.55% to 1.23% of pay, and the contribution rates for the Division A and B Firefighter funds would increase by 1.03% and 1.33%, respectively. Finally, the contribution rates for both the Tier II Hybrid Plans would also increase, but since the employer's cost is fixed at 10% of pay (12% of pay for public safety and fighters), the increased cost of the defined benefit plan would decrease the allocation to the members' defined contribution accounts.

Note, while the total increase in employers' cost is \$17.6 million, the proposed legislation requires employers to contribute the contribution rate on the payroll of reemployed retirees who are eligible to be exempt from the earnings limitation. These increased contributions on the payroll of the eligible

working retirees would finance \$7.4 million, or approximately 40%, of the total cost of the benefit improvement.

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

Proposed Legislative Provisions

This particular bill would exempt a retired member from the postretirement reemployment earnings limit if they become reemployed as an educator, public safety member, or a firefighter at a different agency after 60 days following their initial retirement date. Currently URS will suspend the retirement allowance for members who become reemployed between 60 days after but within one year of their initial date of retirement if the member's compensation during the calendar year exceeds the lesser of \$15,000 or 50% of their final average salary (FAS).

The proposed legislation would exempt a retiree from the earnings limit (\$15,000 or 50% of FAS) as long as: (1) the reemployment occurs at least 60 days from the retiree's initial retirement date, (2) the retiree is reemployed by a different agency, and (3) the retiree is reemployed as an educator (as defined under Section 53A-6-103), public safety service employee, or firefighter service employee. This legislation also requires employers to pay the full contribution rate on the salary of the eligible exempt retiree. These changes 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.

Removing the earnings limit for retirees who seek reemployment between 60 and 365 days following their initial retirement date provides significant flexibility for members to commence their retirement benefit and shortly thereafter reenter the workforce. Due to Utah's high urbanization rate, the requirement for retirees to seek reemployment at a different agency in order to continue receiving their retirement allowance, will be a relatively low hurdle for most retirees. Retired public safety officers and firefighters will need to seek employment at a different municipality or county. The different agency provision could be slightly more problematic for school teachers since they will have to seek employment at a different school district. However, we also expect a majority of the retired school teachers can find employment at another school district that is within a 30 to 45 minute commute from their current residence.

School districts will continue to be able to utilize recently retired teachers from their district as substitute teachers during the school year following the member's retirement. However, these reemployed retirees would continue to be subject to the \$15,000 (and 50% of FAS) earnings limit. There are a couple of characteristics to note about the increased contributions on the payroll of working retirees. First, this financing arrangement places a larger portion of the financial cost on those employers who utilize working retirees in their workforce. In other words, rather than applying the cost increase proportionately to all employers as a percentage of payroll, this "user fee" requires those

employers who utilize working retirees in their workforce to pay a slightly higher portion of the benefit enhancement. However, the working retiree's benefit is no longer fully funded at the time they commence their retirement benefit and the Retirement System has increased reliance on those anticipated contributions as a working retiree to avoid an actuarial loss. As a result, it will become even more important for URS to have appropriate employer reporting processes in place for working retirees to ensure that URS is collecting the appropriate employer contributions on the payroll of these working retirees.

Data and Assumptions

To model the anticipated change in retirement behavior, we analyzed the historical working retiree behavior for members retiring four and half years prior to and four and half years after the enactment of SB 43, the working retiree reform legislation enacted during the 2010 legislative session that became effective July 1, 2010. We have also assumed that retirement behavior would only change in the employee group exempt from the reemployment provisions because these employee types require specialized education and training to be considered for employment. For example, it would be uncommon for a retired public employee to have the necessary skills and qualifications to be a candidate for a public safety or firefighter position. Similarly, retirees seeking reemployment in an educator position would need a state certification to be considered for reemployment as an educator. 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. We have increased the retirement rates for educators by 6% at each age under age 65 (i.e. add 6% at each age). Similarly, the retirement rates for public safety members were increased by 6% at each age prior to age 60, and 2% at each age prior to age 60 for firefighters.

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 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 S.B. 36 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 Annual Cost and Actuarially Determined Contribution Rates for Participating Employers in URS (\$ in thousands)

Fund/Division (1)	Impact on Annual Cost			Actuarially Determined Contribution Rates		
	Total Cost Increase (2)	Cost Increase Financed by Contributions on Working Retiree Pay (3)	Cost Increase Financed by the Employer Certified Rates (4)	Current (5)	Proposed Legislation (6)	Increase (7)
I. Public Employees Contributory						
A. Local Government	\$ 0	\$ 0	\$ 0	11.49%	11.49%	0.00%
B. State and School	97	12	85	14.37%	14.56%	0.19%
II. Public Employees Noncontributory						
A. Local Government	0	0	0	15.50%	15.50%	0.00%
B. State and School	7,562	2,289	5,273	18.86%	19.05%	0.19%
III. Public Safety Contributory						
A. State	3	1	2	23.50%	25.26%	1.76%
B. Other Division A (2.5% COLA)	54	14	40	16.75%	18.28%	1.53%
C. Other Division A (4% COLA)	7	2	5	19.00%	20.72%	1.72%
D. Other Division B (2.5% COLA)	1	0	1	17.22%	18.68%	1.46%
E. Other Division B (4% COLA)	4	2	2	19.62%	20.76%	1.14%
IV. Public Safety Noncontributory						
A. State	2,152	1,276	876	35.12%	36.11%	0.99%
B. Other Division A (2.5% COLA)	2,162	1,294	868	28.12%	29.06%	0.94%
C. Other Division A (4% COLA)	730	421	309	30.42%	31.51%	1.09%
D. Salt Lake City	619	372	247	41.40%	42.45%	1.05%
E. Ogden	117	71	46	42.24%	43.22%	0.98%
F. Provo	114	67	47	37.18%	38.28%	1.10%
G. Logan	58	35	23	37.83%	39.06%	1.23%
H. Bountiful	30	19	11	45.84%	46.52%	0.68%
I. Other Division B (2.5% COLA)	902	714	188	27.73%	28.28%	0.55%
J. Other Division B (4% COLA)	93	55	38	30.18%	31.11%	0.93%
V. Firefighters						
A. Division A	371	85	286	9.34%	10.37%	1.03%
B. Division B	1,429	266	1,163	9.06%	10.39%	1.33%
VI. Judges	0	0	0	48.48%	48.48%	0.00%
V. Tier II - Hybrid Plans						
A. Public Employees	504	185	319	7.99%	8.00%	0.01%
B. Public Safety and Firefighter	633	187	446	10.16%	10.36%	0.20%
IV. Grand Total	\$ 17,642	\$ 7,367	\$ 10,275			

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

Fund/Division	Unfunded Actuarial Accrued Liability			Funded Ratio		
	Current (1)	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%	0.00%
B. State and School	48,064	49,238	1,175	94.1%	94.0%	-0.10%
II. Public Employees Noncontributory						
A. Local Government	572,485	572,485	0	87.0%	87.0%	0.00%
B. State and School	2,750,262	2,821,004	70,741	85.5%	85.2%	-0.30%
III. Public Safety Contributory						
A. State	250	272	22	99.5%	99.4%	-0.10%
B. Other Division A (2.5% COLA)	2,949	3,386	437	97.7%	97.3%	-0.40%
C. Other Division A (4% COLA)	394	451	57	98.5%	98.2%	-0.30%
D. Other Division B (2.5% COLA)	63	70	8	99.8%	99.8%	0.00%
E. Other Division B (4% COLA)	282	318	36	96.6%	96.2%	-0.40%
IV. Public Safety Noncontributory						
A. State	213,206	231,517	18,311	81.0%	79.7%	-1.30%
B. Other Division A (2.5% COLA)	117,224	134,705	17,481	87.0%	85.3%	-1.70%
C. Other Division A (4% COLA)	42,560	48,752	6,192	83.9%	81.9%	-2.00%
D. Salt Lake City	84,679	89,915	5,236	73.1%	71.9%	-1.20%
E. Ogden	17,879	18,833	954	75.1%	74.1%	-1.00%
F. Provo	12,469	13,453	984	76.7%	75.4%	-1.30%
G. Logan	6,258	6,792	534	79.2%	77.8%	-1.40%
H. Bountiful	6,323	6,531	208	73.1%	72.5%	-0.60%
I. Other Division B (2.5% COLA)	52,569	58,793	6,224	81.7%	80.0%	-1.70%
J. Other Division B (4% COLA)	5,578	6,292	714	85.5%	83.9%	-1.60%
V. Firefighters						
A. Division A	(195)	2,129	2,324	100.1%	98.7%	-1.40%
B. Division B	18,035	27,810	9,774	97.9%	96.7%	-1.20%
VI. Judges						
Judges	35,489	35,489	0	81.6%	81.6%	0.00%
VII. Tier II - Hybrid Plans						
A. Public Employees	(7,119)	(6,899)	220	108.7%	108.2%	-0.50%
B. Public Safety and Firefighter	(1,234)	(943)	291	116.6%	112.2%	-4.40%
VIII. Grand Total	\$ 4,027,125	\$ 4,169,048	\$ 141,923	85.5%	85.1%	-0.40%