URS Fiscal Analysis of 2017 S.B. 18

This document has been prepared by the Utah Retirement Systems (URS) based on agency analysis and information received from its consulting actuary, Gabriel Roeder Smith & Company.

Summary of Fiscal Impact

If enacted, 2017 S.B. 18, Firefighters' Disability Retirement Benefit Amendments, likely will not result in a material fiscal impact on URS:

Increase in unfunded actuarial accrued liability:	**Increase in annual cost for all participating employers:**	**Increase in actuarially determined contribution rates:**
None	None	None

Proposed Legislative Provisions

This bill amends provisions relating to Tier I firefighter disability benefits. Tier I firefighters' disability benefits are unique since they are covered within the statutory firefighters' retirement defined benefit system rather than administered as a separate the long-term disability (LTD) insurance program as happens with the other retirement systems administered by URS. This bill has an effective date of July 1, 2017.

The current statutory language for firefighters' disability is slightly different from the statutes governing LTD insurance programs and one purpose of this bill is to make the standards for determining disability consistent. This first set of changes in the bill modifies the standard for determining a disability for members of the Firefighter's Retirement System, including using the "objective medical impairment" standard and modifying the language in definitions to have consistency with the statutes governing the LTD program administered by PEHP Health and Benefits.

Another change in this bill modifies the payment period for nonline-of-duty disability payments for members of the Firefighter Retirement System. Under current law, an active Tier I firefighter with a disability that was not incurred in the line-of-duty and who has five or more years of service credit in the system may receive a monthly disability retirement benefit equal to 50% of the member's final average monthly salary. This bill makes the nonline-of-duty disability benefit payable for 24 months or until the date the firefighter becomes eligible for a service retirement, whichever occurs first. This bill does not affect disability payments for active Tier I firefighters with a disability incurred in the line-of-duty.

Discussion and Actuarial Analysis

First, the bill changes making the standards for determining Tier I firefighter disability consistent with those used by the LTD program administered by PEHP Health and Benefits are expected to increase uniformity and efficiency across all LTD cases, which may help save some administrative costs. However, such changes will not result in direct, measurable cost savings for URS nor will they have a direct budget impact.

Second, the cost of providing benefits may have a small change to benefits paid currently with the nonline-of-duty disability limitations provided in the proposed legislation. There is no immediate cost impact since the bill does not affect disability payments for Tier I firefighters with a nonline-of-duty disability that occurred prior to July 1, 2017, the effective date of the bill. The changes also will have no affect on disability payments for active Tier I firefighters with a line-of-duty disability, regardless of when that classification of disability occurs. The potential difference in disability payments will be for active Tier I firefighters with a nonline-of-duty disability that occurs after July 1, 2017. For that group, disability payments will continue to be paid through the payment period until one of the new statutory payment termination conditions is met. At such time, there will be a period of time that may be called a "window" between the termination of disability payments and subsequent commencement of a retirement allowance. Potential savings, or a decrease in the actuarial accrued liability in the Firefighter's Retirement System, relate to the aggregated benefits not paid by URS during "window" periods.

Since the number of active Tier I firefighters with a nonline-of-duty disability is expected to be relatively small, the impacts of payment suspensions during the window periods on the system will be expected to be relatively small. Such total amounts are also not material in the context of the overall payments and liabilities of the Firefighter's Retirement System Fund. Going forward, the number of firefighters who could potentially experience a "window" will continually decrease. This is because firefighters beginning participation with URS on or after July 1, 2011 are members of the New Public Safety and Firefighter Tier II Contributory Retirement Act. The Tier II firefighters' disability are determined under a separate long-term disability (LTD) insurance program administered by PEHP Health and Benefits or another program selected by the employer. In addition to the declining number of active Tier I firefighters, the possible length of "windows" are also shrinking. This is because all active Tier I members are accruing additional service credit resulting in being closer to eligibility for a retirement allowance, which ends each window from the other side. In a few years, the potential length of the "windows" for firefighters will be fairly small.

For the nonline-of-duty disability limitations changes, implementation of the bill is not expected to affect administrative costs, but if any such costs are incurred, they will be handled within existing budgets and will not result in direct, measurable costs for URS.

While the aggregate impact of the nonline-of-duty disability payment limitation is not material to the Firefighter's Retirement System Fund, the potential impact to the relatively few individuals affected by a "window" should not be overlooked. Such individuals may see a decrease in the total benefits paid to them as the sum of disability payments and retirement allowance.

For the reasons described above, URS does not expect any material impact on URS, the Firefighter's Retirement System's actuarial accrued liability, or actuarially determined contribution rates because of this legislation.