

URS Fiscal Analysis of 2017 S.B. 30

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. 30, Insurance Premium Tax Amendments, will not result in a material fiscal impact on the URS:

Increase in unfunded actuarial accrued liability:	Increase in annual cost for all participating employers:	Increase in actuarially determined gross contribution rates:
None	Not anticipated	None

Proposed Legislative Provisions

This bill modifies the funding offset mechanism of the Tier I Firefighters' Retirement System. If this legislation passes, the current statutory funding source for the Firefighters' Retirement Trust Fund that is 50% of tax collections on certain property insurance premiums will be replaced by an annual payment of \$13.6 M, plus a specified annual increase beginning with fiscal year 2019. This payment is also "subject to review by the Executive Appropriations Committee." The bill also provides a one-time appropriation of \$17.1 M to the Firefighters' Retirement Trust Fund.

Discussion and Actuarial Analysis

The funding modifications in this bill do not alter benefit design or make substantive benefit modifications for the Firefighters' Retirement System. Accordingly, this bill will not impact the actuarially determined gross contribution rate for the system, which is determined prior to the application of the insurance premium offset.

Due to variability in the annual deposits, URS' consulting actuary uses a 3-year average of historical insurance premium tax deposits to develop an offset to the firefighter contribution rate. As of the 2016 valuation, that 3-year average was \$14.2 M. Neither URS nor its consulting actuary have performed detailed analysis of these tax deposits, expected trends, or shortfalls. However, some inconsistencies and declining amounts of insurance premium tax deposits have been observed over several years, which could indicate that the \$14.2 M amount may be understated. If the actuary assumes that the current \$14.2 M average is representative of the long-term average (with inflation increases), then the combination of the \$13.6 M annual payment with the additional one-time appropriation is expected to be a net wash or increase in the present value of the long-term expected proceeds received by the Firefighters' Retirement System. The actuary noted that without an additional one-time appropriation, the \$13.6 M annual payment would result in an increase to the net employer and member contribution rates for the Firefighters' Retirement System.

Also, it is not clear how the annual payment condition of being "subject to review by the Executive Appropriations Committee" will operate. If an annual payment is not made or will be reduced, then that could result in an increase to the net employer and member contribution rates for the Firefighters' Retirement System.

Implementation of the bill is not anticipated to affect administrative costs for URS.

It should finally be noted that URS is neither for nor against the proposed changes. The amount of the insurance premium offset, rather than employer and member contributions, as a funding source for the Firefighters' Retirement System is a policy decision for the Legislature, employers, and members. Our goal is to inform the stakeholders of the potential impacts of these changes.