

## URS Fiscal Analysis of 2018 S.B. 113

*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, 2018 S.B. 113, Postretirement Reemployment Revisions, has the following fiscal impact on URS and affected participating employers:

<b>Increase in unfunded actuarial accrued liability (UAAL):</b>	<b>Increase in annual cost for all participating employers:</b>	<b>Increase in actuarially determined contribution rates:</b>
None. The actuarial loss is expected to be covered with the additional funding from the retiree surcharge.	No cost increase for all employers should result from this legislation. The additional cost is only on those employers who utilize the public safety and firefighter working retirees in their agency.	A preliminary review indicates an additional annual required retiree surcharge of 45% of salary to be paid by the participating employers who utilizes an educator working retiree.

### Proposed Legislative Provisions

S.B. 113 provides a new exception to the Utah Code's Postretirement Reemployment Restrictions Act. Currently URS will suspend the retirement allowance for members who become reemployed within one year of their initial date of retirement unless the member's postretirement reemployment qualifies for one of the exceptions provided in the Act.

To qualify for this exception, the retiree:

- may not be reemployed by a participating employer for a period of at least 60 days from the retiree's retirement date;
- must be reemployed by a participating employer that is a different participating employer (or different agency or office for the State of Utah) than the participating employer the reemployed retiree was employed by at the time of retirement;
- must be reemployed by in a public safety or firefighter position; and
- may not receive any employer paid retirement service credit or retirement related contributions from the participating employer.

In addition, the participating employer that reemploys the retiree is required to contribute to URS on behalf of the educator working retiree: (1) the amortization rate; and (2) a retiree surcharge. The retiree surcharge will be the percent of a reemployed retiree's salary certified by the Utah State Retirement Board (Board) that is required to amortize the actuarial loss that would occur due to eligible working retirees being authorized to commence their benefits at an earlier age and return to the workforce with a participating employer. The Board shall set the

retiree surcharge in accordance with policies established by the Board upon the advice of the actuary.

This proposed legislation would become effective beginning on January 1, 2019.

### **Discussion and Actuarial Analysis**

At a high level, the impact on the cost of the member's benefit due to changes in the postretirement reemployment provisions is determined assuming the member's expected exit from the workforce versus when the member's benefit commenced. It has been demonstrated in prior analysis that it is more expensive for employers to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age. This effect has been studied and documented several times for stakeholders in URS. 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 and the most recent actuarial valuation of URS as of that time.

The requirement of the public education employers to contribute the full contribution rate acts like a "user fee" and places a direct, additional cost on only those employers who utilize the working retirees in their agency. The funding from the surcharge contributions will occur gradually during the member's reemployment period, so there will be a lag in the timing between the actuarial loss and the additional funding. This statement is not intended to deter this as a funding approach, but only for completeness in understanding the method. If the costs of less restrictive working retiree provisions are not funded with a "surcharge" approach, the costs will be incorporated in the employer contribution rates and the increased cost of the retirement plan is advanced funded and all the employers would experience a cost increase, even if they do not employ any working retirees.

The actuarial equivalent "surcharge" that public education employers would contribute on the payroll of eligible working retirees is dependent on several factors such as the member's age and service when they commence their benefit, as well as the duration of their employment after retirement. Since the benefits and contributions are all a function of pay, the cost as a percentage of payroll is the same for all pay ranges. There is a relatively wide variation in the actuarially determined surcharge. For administrative purposes, it is recommended to derive a single surcharge to apply to the payroll of all working retirees, based on an expected demographic profile. Based on the historical experience, a preliminary review indicates an average annual retiree surcharge of 45% for public safety and firefighter retirees.

Currently a participating employer contributes the amortization cost (a range from 9.64% to 26.89% of pay for public safety, depending on the system and fund, and a net rate of 0 for firefighter systems) on a retiree reemployed after June 30, 2010, to finance the unfunded actuarial accrued liability. The rationale for this payment is the retirement system continues to receive contributions to finance the unfunded liability on a position that would otherwise be occupied by an employee earning retirement benefits (and the employer would be paying the full contribution rate). The employer retiree surcharge contribution rate provided only covers the actuarial loss that would occur due to that member commencing their benefit at an earlier age and returning to the workforce, and does not include the lost amortization payment due to a covered position being occupied by a working retiree.

In order for the Retirement System to maintain the same pace in financing the unfunded liability, the participating employer must contribute the amortization charge to finance the existing unfunded liability plus the surcharge to finance the actuarial loss that would occur due to the member commencing their retirement benefit at an earlier age.

### **Data and Assumptions**

The actuary has not completed the detailed analysis necessary to recommend a final retiree surcharge to the Board. However, with a preliminary review, the actuary recommended looking at the prior analysis to determine (1) the average hire age and (2) average number of years a working retiree remained in the workforce after commencing their retirement benefit. The prior analysis appropriately looks at these demographics based on the experience before the working after retirement rules were changed. Based on this prior analysis, we get the following:

#### Public Safety Employees

Average Retirement Age:	50
Average Hire Age:	27 (Age 50 ret. age minus avg service of 23 years)
Average Working Retiree Duration:	10 years

The initial retiree surcharge percentage is based on the assumption that the member returns to work at the same pay the member earned at the time of their retirement. If the retiree is reemployed at a lower salary, then that surcharge amount would not cover the entire cost associated with the commencement of the retirement benefit at an earlier age.

### **Other Actuarial Comments**

This information is based on a preliminary review and not final actuarial analysis. Also, actuarial 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 retirement benefit 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 URS and its actuary are neither for nor against the proposed changes. Benefit changes are a policy decision for the Legislature and employers. Our goal is to inform the stakeholders of the impact on URS of changes to these provisions.

**Administrative Cost Analysis**

As with all bills that alter benefit design or make substantive benefit modifications, implementation of 2018 S.B. 113 will likely result in some administrative costs. URS is specifically required, on or before November 30, 2024, to study, evaluate, and report on the actuarial costs and effectiveness of implementing the educator retiree reemployment exception to the Retirement and Independent Entities Committee of the Legislature. The actuary will annually review working retiree experience in order to recommend the retiree surcharge rate to the Board. The 2024 report is expected to largely be a summary of work performed and experience reviewed through the first five years of the new exception. Accordingly, administrative costs will be handled within existing budgets, will not result in direct, measurable costs for URS.