

URS Fiscal Analysis of 2016 4th Substitute H.B. 86

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, 4th Substitute H.B. 86, Postretirement Employment Restrictions, 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:
\$11 million	\$1.2 million	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: 0.03% increase • Tier II Public Employee Hybrid Plan: 0.02% increase

If this legislation becomes enacted, there would be a \$1.2 million increase in the annual cost for the public employee funds of URS. There would not be a cost increase for the public safety and firefighter funds. Also, the collective unfunded actuarial accrued liability of the participating employers will increase by \$11 million due to this legislation.

The actuarially determined contribution rate for the Tier I Noncontributory State and School Fund, Fund 16, would increase by 0.03% to 18.89%. The contribution rates for the Tier II Public Employee Hybrid Plan would increase by 0.02% to 8.01%. However, since the employer's cost is fixed at 10% of pay, the increased cost of the defined benefit plan would decrease the allocation to the members' defined contribution accounts.

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

Proposed Legislative Provisions

This particular bill would increase the earnings limit that applies to retirees who become reemployed between 60 days and one year of their initial retirement date. Currently URS will suspend the retirement allowance for members who become reemployed after 60 days but within one year of their initial date of retirement if the member's compensation during any calendar year exceeds the lesser of \$15,000 or 50% of the member's final average salary (FAS).

The proposed legislation would increase the earnings limit to be the lesser of \$20,000 or 50% of the member's FAS. These changes become effective on July 1, 2016. The \$20,000 limit would be adjusted in the future by the annual change in the Consumer Price Index.

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.

To model the anticipated change in retirement behavior, we analyzed the earnings distribution for each employee type to identify the opportunity for the retirees to seek reemployment in a position with compensation below the new earnings limit. The analysis indicates that a \$5,000 increase in the compensation limit would likely result in a small increase in the rate that non-educator public employees would retire and seek reemployment, but would not measurably increase the opportunity for public safety members, firefighters, and educators to retire and find employment within the same occupation that would be below the new earnings limit. Although public safety, firefighters, and educators could retire and seek employment in a public employee position, the historical experience shows this happens on a relatively infrequent basis.

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. To model the anticipated change in retirement behavior, the retirement rates for state employees and local government employees at each age below age 65 were increased by 0.4% and 0.1%, respectively.

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 4th Substitute H.B. 86 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 Actuarially Determined Contribution Rates and Annual Cost for Participating Employers (\$ in thousands)

Fund/Division (1)	Actuarially Determined Contribution Rates			Annual Cost for FY 2017 Based on Actuarially Determined Rates		
	Current (2)	Proposed	Increase (4)	Current (5)	Proposed	Increase (7)
		Legislation (3)			Legislation (6)	
I. Public Employees Contributory						
A. Local Government	11.49%	11.50%	0.01%	\$ 6,282	\$ 6,287	\$ 5
B. State and School	14.37%	14.40%	0.03%	5,423	5,431	8
II. Public Employees Noncontributory						
A. Local Government	15.50%	15.51%	0.01%	135,126	135,223	97
B. State and School	18.86%	18.89%	0.03%	536,277	537,148	871
III. Public Safety Contributory						
A. State	23.50%	23.50%	0.00%	32	32	0
B. Other Division A (2.5% COLA)	16.75%	16.75%	0.00%	471	471	0
C. Other Division A (4% COLA)	19.00%	19.00%	0.00%	60	60	0
D. Other Division B (2.5% COLA)	17.22%	17.22%	0.00%	12	12	0
E. Other Division B (4% COLA)	19.62%	19.62%	0.00%	49	49	0
IV. Public Safety Noncontributory						
A. State	35.12%	35.12%	0.00%	40,444	40,444	0
B. Other Division A (2.5% COLA)	28.12%	28.12%	0.00%	31,325	31,325	0
C. Other Division A (4% COLA)	30.42%	30.42%	0.00%	10,239	10,239	0
D. Salt Lake City	41.40%	41.40%	0.00%	12,447	12,447	0
E. Ogden	42.24%	42.24%	0.00%	2,533	2,533	0
F. Provo	37.18%	37.18%	0.00%	2,054	2,054	0
G. Logan	37.83%	37.83%	0.00%	964	964	0
H. Bountiful	45.84%	45.84%	0.00%	864	864	0
I. Other Division B (2.5% COLA)	27.73%	27.73%	0.00%	15,999	15,999	0
J. Other Division B (4% COLA)	30.18%	30.18%	0.00%	1,436	1,436	0
V. Firefighters ²						
A. Division A	9.34%	9.34%	0.00%	2,514	2,514	0
B. Division B	9.06%	9.06%	0.00%	7,823	7,823	0
VI. Judges ²	48.48%	48.48%	0.00%	8,052	8,052	0
VII. Tier II - Hybrid Plans ³						
A. Public Employees	7.99%	8.01%	0.02%	73,017	73,238	221
B. Public Safety and Firefighter	10.16%	10.16%	0.00%	8,312	8,312	0
VIII. Grand Total				\$ 901,755	\$ 902,957	\$ 1,202

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 (1)	Unfunded Actuarial Accrued Liability			Funded Ratio		
	Current (2)	Proposed Legislation (3)	Increase (4)	Current (5)	Proposed Legislation (6)	Decrease (7)
I. Public Employees Contributory						
A. Local Government	\$ 48,655	\$ 48,716	\$ 61	89.8%	89.8%	0.00%
B. State and School	48,064	48,068	4	94.1%	94.1%	0.00%
II. Public Employees Noncontributory						
A. Local Government	572,485	573,914	1,429	87.0%	87.0%	0.00%
B. State and School	2,750,262	2,759,662	9,399	85.5%	85.4%	-0.10%
III. Public Safety Contributory						
A. State	250	250	0	99.5%	99.5%	0.00%
B. Other Division A (2.5% COLA)	2,949	2,949	0	97.7%	97.7%	0.00%
C. Other Division A (4% COLA)	394	394	0	98.5%	98.5%	0.00%
D. Other Division B (2.5% COLA)	63	63	0	99.8%	99.8%	0.00%
E. Other Division B (4% COLA)	282	282	0	96.6%	96.6%	0.00%
IV. Public Safety Noncontributory						
A. State	213,206	213,206	0	81.0%	81.0%	0.00%
B. Other Division A (2.5% COLA)	117,224	117,224	0	87.0%	87.0%	0.00%
C. Other Division A (4% COLA)	42,560	42,560	0	83.9%	83.9%	0.00%
D. Salt Lake City	84,679	84,679	0	73.1%	73.1%	0.00%
E. Ogden	17,879	17,879	0	75.1%	75.1%	0.00%
F. Provo	12,469	12,469	0	76.7%	76.7%	0.00%
G. Logan	6,258	6,258	0	79.2%	79.2%	0.00%
H. Bountiful	6,323	6,323	0	73.1%	73.1%	0.00%
I. Other Division B (2.5% COLA)	52,569	52,569	0	81.7%	81.7%	0.00%
J. Other Division B (4% COLA)	5,578	5,578	0	85.5%	85.5%	0.00%
V. Firefighters						
A. Division A	(195)	(195)	0	100.1%	100.1%	0.00%
B. Division B	18,035	18,035	0	97.9%	97.9%	0.00%
VI. Judges	35,489	35,489	0	81.6%	81.6%	0.00%
VII. Tier II - Hybrid Plans						
A. Public Employees	(7,119)	(7,071)	48	108.7%	108.7%	0.00%
B. Public Safety and Firefighter	(1,234)	(1,234)	0	116.6%	116.6%	0.00%
VIII. Grand Total	\$ 4,027,125	\$ 4,038,067	\$ 10,942	85.5%	85.5%	0.00%