

URS Fiscal Analysis of 2018 1st Substitute S.B. 21

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 1st Substitute S.B. 21, Public Safety and Firefighter Retirement Death Benefit Amendments, has the following fiscal impact on URS:

Increase in unfunded actuarial accrued liability (UAAL):	Increase in annual cost for all participating employers:	Increase in actuarially determined contribution rates:
\$260,000 for affected Tier I Public Safety Retirement System Funds; and \$307,000 for the Firefighters' Retirement System, Division A Fund.	For Fiscal Year 2018-2019: \$44,000 for affected Tier I Public Safety System Funds; and \$45,000 for the Firefighters' Retirement System, Division A Fund.	<u>Public Safety Contributory</u> Other Division A (2.5% COLA) 0.04% Other Division A (4% COLA) 0.04% Other Division B (2.5% COLA) 0.03% Other Division B (4% COLA) 0.03% <u>Public Safety Noncontributory Retirement System, Division B Funds:</u> Salt Lake City 0.04% Ogden 0.04% Provo 0.07% Logan 0.05% Other Division B (2.5% COLA) 0.03% Other Division B (4% COLA) 0.03% <u>Firefighters' Retirement System:</u> Division A 0.14%

If this legislation becomes enacted, there would be an \$89,000 increase in the annual cost for the affected participating employers in URS. Also, the collective unfunded actuarial accrued liability of the affected participating employers will increase by \$567,000 due to this legislation. If enacted, this legislation would increase the actuarially determined contribution rate for affected Funds by between 0.03% and 0.14% from the Board's approved Preliminary Tier I Retirement Contribution Rates.

Proposed Legislative Provisions

This bill would increase the active member death benefits payable for Tier I members of Public Safety Contributory Systems, Division B in the Public Safety Noncontributory Retirement System, and Division A in the Firefighters' Retirement System. The Public Safety and Firefighter death benefits provide benefits to beneficiaries and spouses when member line-of-duty or non-line-of-duty deaths occur.

Discussion and Actuarial Analysis

The death benefit payable in most cases to an active member of these systems is a fixed percentage of final average salary that varies based on social security coverage. Currently, Division B Firefighters, Public Safety Noncontributory System Division A members, and Public Safety Contributory System members who are eligible to retirement are entitled to a minimum benefit equal to the amount the

member's surviving spouse would have received if the member had retired the day before their death and then died. This feature prevents the survivor benefit from diminishing for long service employees.

The proposal would increase the unfunded actuarial accrued liability (UAAL) for the impacted Tier I Public Safety Retirement System Funds by \$260,000 and the Firefighters' Retirement System, Division A by \$307,000. The proposal would increase contributions for Fiscal Year 2018-2019 by \$44,000 for the impacted Tier I Public Safety Retirement System Funds and by \$45,000 for the Firefighters' Retirement System, Division A.

The increase in the contribution rates for the affected Funds is shown in the table above. The impact on the Firefighters' System is larger than on the Public Safety System. This is primarily due to the fact that the Firefighters' retiree survivor benefit is larger than the Public Safety retiree survivor benefit (75% versus 65%).

The proposal does not affect the benefits of or result in a contribution increase for:

- Public Safety Noncontributory Retirement System, Division A Funds (State, Other Division A With 2.5% COLA, Other Division A With 4% COLA, and Bountiful); and
- Firefighters' Retirement System, Division B.

Data and Assumptions

The actuary determined the increase in UAAL and increase in annual cost for all participating employers based upon the cost impact resulting from providing the enhanced death benefit to all the Tier I Public Safety and Firefighter members.

The original version of S.B. 21 did not include enhancing the death benefit for the Contributory Public Safety System, but those public safety members were not excluded from the actuary's analysis of total increase in UAAL and increase in annual cost for all participating employers. As of January 1, 2017, there were 45 active public safety members in the Contributory Public Safety System. Since 1st Substitute S.B. 21 now includes enhancing the death benefit for the Contributory Public Safety System, the contribution rate increases for the Contributory Public Safety System are now shown in the table above.

Other Actuarial Comments

Pursuant to Utah Code Section 49-11-301, the preliminary certified contribution rates approved by the Board for Fiscal Year 2018-19 are being maintained at a previous year's level that is higher than the contribution rate calculated by the board's actuary for that year. Since this legislation is a benefit enhancement enacted by the Legislature with actuarially determined costs, pursuant to Section 49-11-301, the Board's final certified contribution rate shall be the sum of those costs (shown in the contribution rate increase column in the table above) and the preliminary certified contribution rate.

These 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 1st Substitute S.B. 21 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.