URS Fiscal Analysis of 2018 H.B. 233 "Teacher Salary Supplement Revisions"

This document has been prepared by the Utah Retirement Systems (URS).

Summary of Fiscal Impact
If enacted, 2018 H.B. 233, Teacher Salary Supplement Revisions, likely will not result in a material fiscal impact on URS. However, this bill will reduce the monthly retirement allowance for affected retirees.

Proposed Legislative Provisions and Analysis
This bill expands eligibility of the Teacher Salary Supplement Program from certain math, science, and computer science teachers to include special education teachers (Line 390). The legislation removes the annual salary supplements from compensation for retirement purposes with the Utah Retirement Systems (URS) (Lines 86-87, 189-190, 289-290, and 456-457).

Under current law, a qualifying teacher receives an annual salary supplement of $4,100. The participating employer is required to pay retirement contributions on the salary supplement as it is considered "compensation" as defined in Title 49. Accordingly, the amounts are currently included in the "final average salary" used to calculate the teacher's monthly retirement allowance from the defined benefit plan.

If this legislation is enacted, previously eligible math, science, and computer science teachers will have their salary supplements excluded from retirement compensation beginning on July 1, 2018. A teacher who is currently a member of the Public Employees' Noncontributory Retirement System qualifies to receive an unreduced retirement allowance at any age with 30 years of service. The Option 1 benefit is 60% of final average salary. If $4,100 is removed from the determination of final average salary, this would reduce the annual retirement benefit by $2,460; the monthly retirement allowance would be reduced by $205. In addition, annual cost-of-living adjustments to the monthly retirement allowance for affected retirees would be based on the smaller benefit.

Although this bill would reduce the monthly retirement allowance for affected retirees by reducing eligible compensation, it does not alter benefit design or make substantive benefit modifications. Required contributions will be paid on the same compensation used to calculate benefits, so the systems will continue to be maintained and administered on an actuarially sound basis. Accordingly, this bill does not result in an increase in any unfunded actuarial accrued liability for URS systems or increase actuarially determined contribution rates. For URS, 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. Accordingly, this bill likely will not have a material fiscal impact on URS nor will it increase actuarially determined contribution rates.

The contribution rates of participating employers will not be changed with this legislation. However, employers with teachers in the Teacher Salary Supplement Program will need to track the salary supplements beginning on July 1, 2018, and treat them as ineligible for retirement contributions and not report it to URS. The change with the supplements going forward will be much more complex with a tiered structure of payments dependent on years in the position related to the amount. Employer finance or payroll personnel will have to track different compensation for issuing paychecks and income tax purposes (including W-2 preparation) from retirement compensation reporting to URS. URS already audit its participating employers for compliance with eligible wage reporting and related retirement contributions, but there will be additional audit testing relating to these Teacher Salary Supplement Program changes.