Determination of Calculated Contribution Rates

The URS retirement systems, except for the Governors’ and Legislators’ Retirement Plan, are funded by employer contributions which are expressed as a percent of pay, and in some cases by member contributions. The Firefighters System and the Judges System receive additional funding from outside sources. As shown in Exhibit 2(a), the employer contribution rate can have as many as four components:

- The normal cost percentage (NC%)
- The amortization percentage (UAAL%)
- The contribution required to fund the 3% substantial substitute benefit (3%SS)
- The offset for fire insurance premium taxes and court fees which reduce the employer contribution rates in the Firefighters System and the Judges System, respectively.

The NC% is the theoretical amount which would be required to pay the members’ benefits, based on the current plan provisions, if this amount had been contributed from each member’s entry date and if the fund’s experience exactly followed the actuarial assumptions. This is the amount it should cost to provide the benefits for an average new member. The NC% for each fund is shown in Exhibit 6(a).

Some of the funds require active member contributions, and for these, only the excess of the NC% over the member contribution rate is included in the employer contribution rate, as shown in Exhibit 6(b) and in column 2 of Exhibit 2(a).

The actuarial accrued liability (AAL) is the difference between (i) the actuarial present value of all future benefits for all current members of the fund, including active, inactive and retired members, and (ii) the actuarial present value of future normal costs. Thus, the AAL represents the liability associated with past years. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and the actuarial value of assets (AVA). It is the shortfall/excess between the liability associated with prior years (the AAL) and the assets actually accumulated (the AVA). This shortfall/excess can arise from several sources, including actuarial gains and losses which are caused by differences between actual experience and the plan’s assumptions, changes to the plan’s actuarial assumptions, and amendments to the benefit provisions.

The UAAL% is the amount required to fund this difference. It is the amount, expressed as a level percentage of payroll, necessary to amortize the UAAL. The Board’s current policy calls for amortizing the UAAL over 25 years from Jan. 1, 2009, so the development of the current amortization rate for 2013 is based on a funding period of 21 years. Column 3 of Exhibit 2(a) shows the UAAL% for each fund.
The 3% Substantial Substitute component of the employer contribution rate is only required for funds whose members are employees of the state (or who are paid by state funding). This piece is the amount necessary to fund the 3% Substantial Substitute. It is shown in column 4 of Exhibit 2(a), and is described in greater detail later.

The last piece of the contribution rate is the offset. The Firefighters System receives a portion of the fire insurance premium taxes collected by the state, and the Judges System receives a portion of court fees collected by the judiciary. The calculation of the offsets is shown in Exhibit 2(b).

Section 49-11-301(5) of the Utah Code gives the Board the option of setting contribution rates at the higher of the previous year’s rate and the current year’s actuarially calculated rate. The Board does not have to decrease the contribution rate from the prior year as long as it is funding towards or maintaining a funded ratio of 110%. The Board has historically followed the policy of holding the rates constant, but not less than the actuarially calculated rate, as permitted by §49-11-301(5).

Under the policy, the actuarial rates and last year’s certified rates are compared, and the larger is set as the new certified rate. This is done separately for the contribution for the 3% Substantial Substitute fund, and then the rate for the 3% Substantial Substitute is added to the regular contribution rate, as shown on Exhibit 1(c). Then the offset for the fire insurance premium tax and the court fees are applied, as shown in Exhibit 1(a).

The contribution rates set in this valuation will become effective for the twelve-month period beginning July 1, 2014 (FY 2015).

The Governors’ and Legislators’ Retirement Plan, unlike the other systems, is funded by direct legislative appropriations. Similar to last year, we are recommending an appropriation be made for this plan by the end of FY 2015. Please see the discussion about the determination of the appropriation later in this section and the calculation of the appropriation on Exhibit 16.

Exhibit 2(a) also shows the development of the calculated contribution rate for the Tier II Hybrid systems. The State makes contributions on Tier II payroll towards the 3% substantial substitute. However, since the Tier II Hybrid Plans are cost sharing plans and the State and local governments participating in the plans do not have separate Tier II Hybrid Plan contribution rates, the rates shown on Table 2(a) exclude the 3% Substantial Substitute contribution.

All employers in Tier II must make an additional contribution, based on the payroll of their Tier II employees, towards the amortization of their Tier I unfunded liabilities. This additional contribution rate is not shown on Exhibit 2(a) because it varies by employer. However, the additional amortization payment for each fund is shown in Column 7 of Table 1(d). This additional amortization payment also includes the payment for the 3% Substantial Substitute if applicable.