



Retirement Updates: 2023 Legislative Session



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URS/PEHP Employer Event

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2023 General Retirement Bills that Passed



H.B. 41

Utah Retirement Systems Revisions

(Rep. Brooks)

- » These are administrative and technical amendments to Utah Code Title 49 recommended to the Legislature annually by URS.
- » No significant changes to participating employers' responsibilities or duties in this year's bill.

H.B. 183

Firefighter Retirement Revisions

(Rep. Welton)

- » This bill authorizes coverage of certified or licensed emergency medical service (EMS) personnel in the firefighter retirement on a prospective basis.
- » Note: Employers that have a fire department and participate in the firefighter retirement system may already cover qualified EMS personnel in firefighter retirement.
- » New coverage first requires participating employers to make an irrevocable election to cover the employer's EMS personnel under the firefighter retirement system.

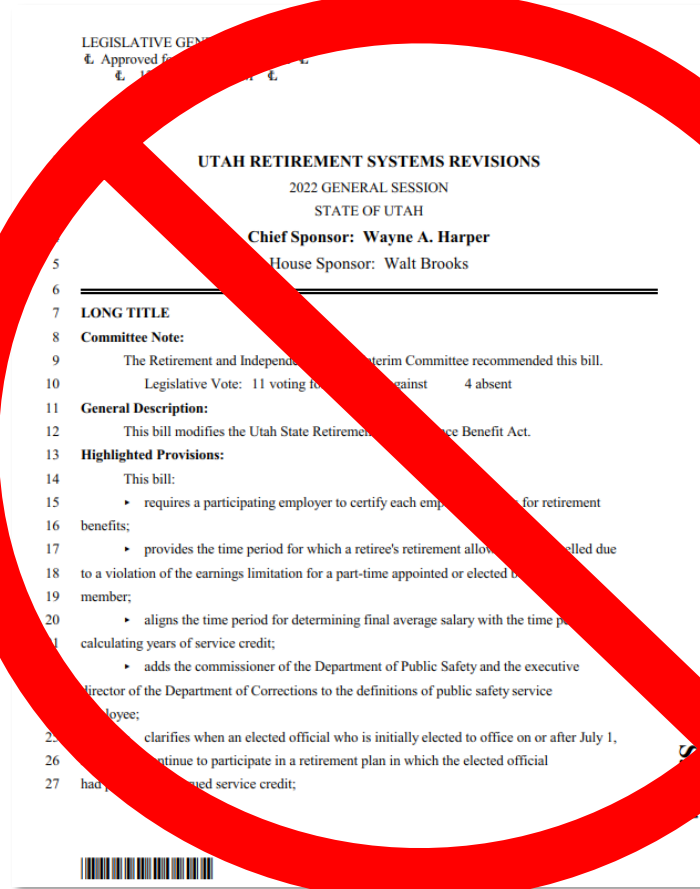
H.B. 105

Public Employee Disability Benefits Amendments

(Rep. King)

- » Allows an eligible employee to receive PEHP long-term disability (LTD) benefits for an objective medical impairment regardless of whether the impairment is physical or mental.
- » Eliminates the 2-year limit for disability benefits attributable to a mental impairment during a three-year pilot period between July 1, 2023, and June 30, 2026.

Retirement Bills that did not Pass



Did Not Pass

- » A new working retiree exception to the Utah Code's Postretirement Reemployment Restrictions Act:
 - › *H.B. 104, Modifications to Public Safety Retirement (Rep. Gwynn)*
 - › *H.B. 125, Postretirement Reemployment Amendments (Rep. Birkeland)*
 - › *H.B. 126, Postretirement Reemployment Modifications (Rep. Birkeland)*
- » Tier 2 Public Safety and Firefighters' System benefit enhancements:
 - › *H.B. 104, Modifications to Public Safety Retirement (Rep. Gwynn)*

Working Retiree Restrictions

General Rule

- » Current Utah statutes require URS to suspend the retirement allowance for members who become reemployed with a participating employer within one year of their initial date of retirement unless the member's postretirement reemployment qualifies for one of the exceptions provided in the statutes.

Limited Earnings Exception

- » One exception allows working retirees who are reemployed after 60 days with a bona fide termination, don't receive employer provided benefits, and whose salary is limited during a calendar year (\$19,504.61 for 2023). The one-year separation period begins to run after this reemployment ends.

Other Narrow Exceptions

- » See statutes and URS publications.

2023 Retirement-Related Process Bills that Passed



S.B. 11

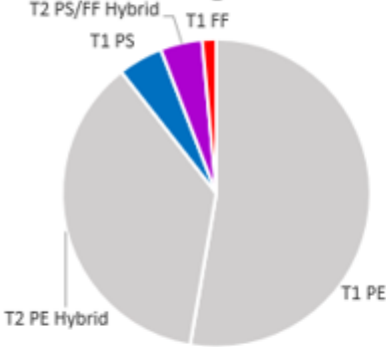
Retirement Fiscal Note Requirements

(Sen. Fillmore)

- » Directs the Office of the Legislative Fiscal Analyst to include specified additional information in the fiscal estimate for each proposed bill that changes retirement benefits for public employees.

Example of Enhanced Cost Info

2023 H.B. 104, Modifications to Public Safety Retirement:

Affected Systems/ Employee Groups (Gray= system not affected; Hash= some members of system are eligible)	Fiscal Impact: Increase in unfunded actuarial accrued liability (UAAL) Change in funded status	Fiscal Impact: Increase in actuarially determined contribution rates	Fiscal Impact: Annual cost for Fiscal Year 2023-2024
<p>Tier 1 & Tier 2 Public Safety (PS) & Firefighter (FF) Systems</p>  <p>T1 and T2 PS & FF Systems' Actuarial Accrued Liability = \$6.57 Billion</p>	<p>\$47.89 Million</p> <p>Tier 1 PS & FF Systems: Range from -0.1% to -0.6%.</p> <p>Tier 2 PS & FF Hybrid System: -6.7%</p>	<p>Tier 1 PS System Funds: Increases ranging from 1.62% to 2.07% (only for four fiscal years)</p> <p>Tier 1 FF System Funds: Increases ranging from 1.06% to 1.76% (only for four fiscal years)</p> <p>Tier 2 PS & FF Hybrid System: Member contribution rate increase of 4.73% (from 2.59% to 7.32%)</p>	<p>Increase of \$27.10 Million for all Systems:</p> <p>\$11.71 Million for Tier 1 PS & FF Funds (only for four fiscal years)</p> <p>\$15.39 Million for the Tier 2 PS & FF Hybrid System. Note: Due to increasing Tier 2 covered payroll, the dollar cost will increase (e.g. \$29 Million in 2032; \$48 Million in 2042)</p>

S.B. 21

Retirement and Independent Entities Amendments

(Sen. Harper)

- » Allows the Retirement and Independent Entities Committee to meet after the regular Interim period up to the day before the beginning of the annual general session to review draft legislation related to Title 49, Utah State Retirement and Insurance Benefit Act.

Total Compensation

- » Increasing focus on how pay and benefits fit within a competitive overall compensation and benefits package.
- » Base pay; public employee retirement benefits (URS systems and plans) & optional employer supplemental (e.g. additional 401(k) contributions and matches); medical benefits; leave; and other benefits.
- Impacts and costs should be evaluated by the stakeholders, including :
 - Policy objectives and cost-benefit analysis;
 - Employer needs, recruiting and retention considerations, and ability to pay;
 - Labor market comparisons; and
 - Employee needs, considerations, and morale.

2023 “State” Retirement Bills that Passed

- » State of Utah is the largest public employer in the state.
- » State employee benefits are generally established in statute by the Legislature.



S.B. 22

State Employee Benefits Amendments

2nd Substitute Version (Sen. Fillmore)

- » Creates the State Employee Benefits Advisory Commission, which shall review and make recommendations for: 1) the State's annual compensation plan; and 2) proposed legislation submitted to it that amends the health care, leave, or salary benefits for state employees while considering total compensation.
- » The substitute version deletes the review and recommendations of retirement issues as well as the URS and private sector retirement members.

S.B. 89

Utah Retirement Amendments

(Sen. Harper)

- » Requires 401(k) auto enrollment for **State employees** hired beginning July 1, 2023.
- » The amount of employee auto enrollment equals the employer's contribution match paid by the State (currently \$26 per pay period for qualifying state employees).

Passed 2023 Retirement-Related Investment Bill



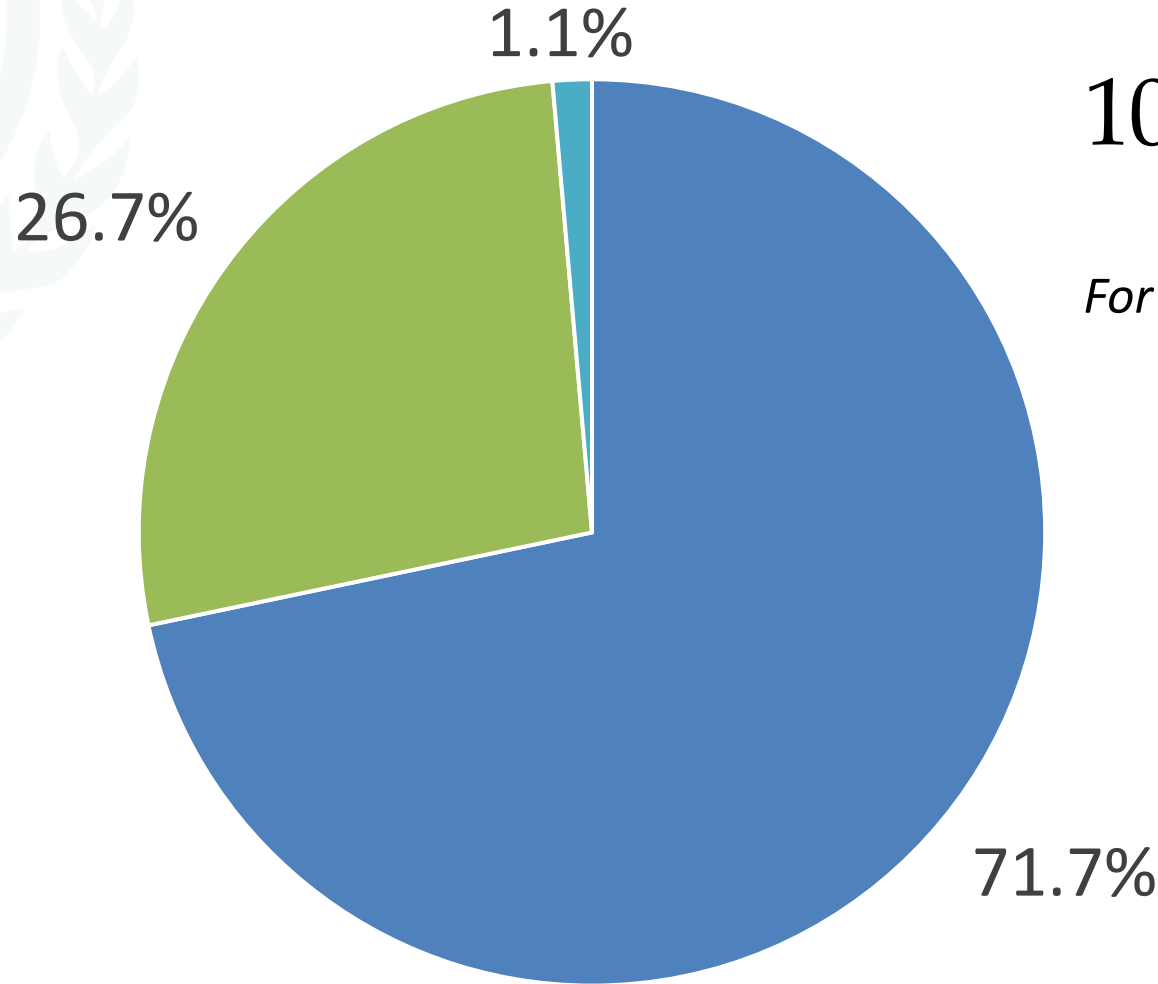
Defined Benefit Plans Funding

- » Net investment income (the largest source of funding):
 - › \$6.7 billion in 2021 (record one-year high) (strong investment earnings of 17.5% compared to 6.85% assumed rate)
 - › \$23.3 billion over the last 10 years
- » Contributions totaled \$1.38 billion in 2021 (increased by \$70.3 million due to reported wages increasing \$380.2 million or 6.2%)
- » Retirement benefit payments of \$1.98 billion in 2021
- » URS paid out \$594 million more in benefits compared to contributions received in 2021



Most recent audited information; For the year ended Dec. 31, 2021

DB Plan Additions by Source



10-year Average

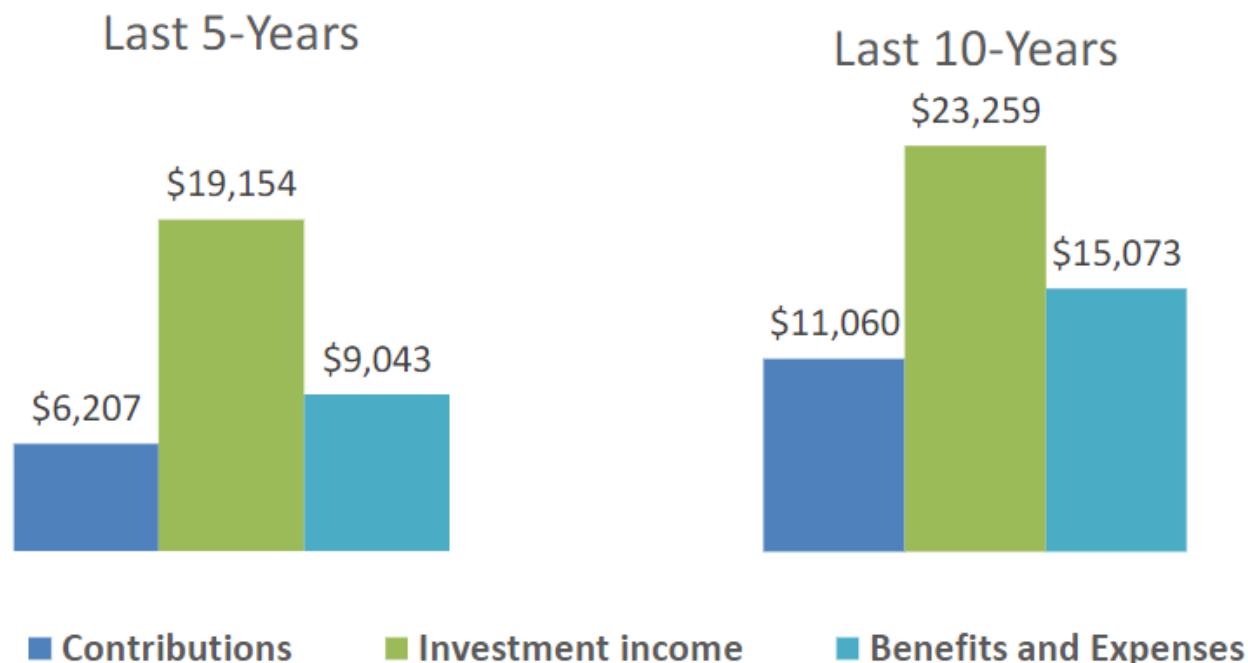
For the period ended Dec. 31, 2021

■ Net investment income ■ Contributions ■ Fire insurance premium taxes, budget appropriations, and court fees

Contributions, Earnings, and Benefits DB Plan (For Year Ended Dec. 31)

- Over last 5 years, contributions and investment earnings have exceeded benefit payments by **\$16.3 billion**
- Over last 10 years, contributions and investment earnings have exceeded benefits by **\$19.2 billion**

(In millions)



Most recent audited information; For the year ended Dec. 31, 2021

Fiduciary and Investing **Hot Topic**



ESG Investing

- » Definitional problem: No commonly agreed upon definition of environmental, social, and governance (ESG) investing.
- » Increasing interest in ESG, including anti-ESG.
- » A fast-changing landscape for investments generally, with public pension plans nationally, and in Utah.
- » Regulatory, legislative, and litigation developments continue to accelerate around investments incorporating ESG factors and the “anti-ESG” pushback.

Fiduciary Standard of Care

Statutory Standard Governing the Retirement Board

- » **§ 49-11-303. Fund investment standard -- Prudent investor rule.**

The fund shall be invested in accordance with the prudent investor rule established in Title 75, Chapter 7, Part 9, Utah Uniform Prudent Investor Act.

- » This statutory standard has been applicable to URS for decades.

Fiduciary Standard of Care

- » The Utah State Retirement Board follows the prudent investor rule and fulfills its fiduciary duties of prudence and loyalty.
- » In accordance with the Board's fiduciary responsibilities, it makes investment decisions with the sole purpose of maximizing the risk-adjusted return on the investments, which are held for the exclusive purpose of funding beneficiaries' benefits.
- » In evaluating investments, the Board:
 - › Must consider material risk and return factors; and
 - › May not subordinate financial interests of members in favor of promoting societal or political goals.

S.B. 96

Fiduciary Duty Modifications

2nd Substitute Version (Sen. Wilson)

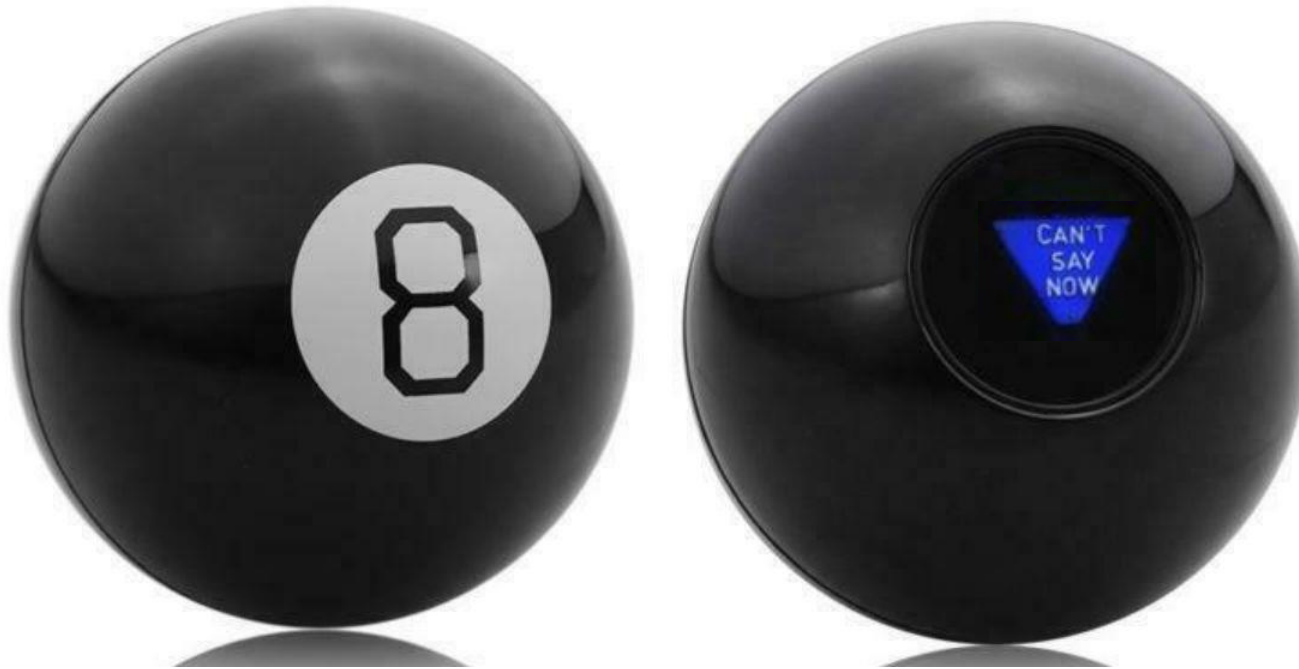
- » The substitute version of S.B. 96 addresses fiduciary principles relating to the prudent investor rule and proxy voting for the Utah Retirement Systems (URS) and the Retirement Board in their governing statutes, Title 49.
- » Makes the my529 plan and other public treasurers subject to the Prudent Investor Rule, which has been long applicable to the Retirement Board.
- » This version passed.

S.B. 96, Original Version

- » Was substituted and this version did not pass.
- » Would have made significant changes in the management and investments for certain funds, including those managed by the State Retirement Board.
- » Would result in material direct and explicit costs in the form of: 1) additional, internal resources required for monitoring and compliance; and 2) indirect or “opportunity” costs in the form of general partner/manager exclusions that would ultimately change the entire strategy profile of the URS investment program and decrease its investment returns.
- » Would require very significant increases in actuarially determined contribution rates for every URS system and plan paid by employers and employee members to finance the additional costs.

Going Forward

Policy and financial decisions are not easy



Studies and Discussions

- » Expect studies about total compensation and retirement benefit changes. Potential topics may include:
 - › Comprehensive working retiree rule changes
 - › Tier 2 reforms (Public Safety/Firefighter System & Public Employees' System)
 - › Employer supplemental benefits
- » URS will continue to meet with the Legislative Committees, the URS Membership Council, and other retirement stakeholder groups to discuss benefits, potential changes, and costs.

Questions?

URS is willing to discuss questions or provide additional information, whether related to this presentation or about other retirement-related issues.

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