

URS Fiscal Analysis of 2019 2nd Substitute S.B. 129

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, 2019 2nd Substitute S.B. 129, Public Safety and Firefighter Tier II Retirement Enhancements, has the following fiscal impact on URS and affected participating employers relating to the New Public Safety and Firefighter Tier II Contributory Retirement System (PS/FF Tier 2 System):

Increase in unfunded actuarial accrued liability (UAAL):	Increase in annual cost for all participating employers and members:	Increase in actuarially determined contribution rates:
See Actuary Table 1 below for FY 2019-2020. Prospective increases in actuarial accrued liability will be funded through increases to the normal cost portion of the contribution rates.	The costs are \$5.3 M in FY 2019-2020, with annual increases as projected in the Actuary Table 2 below. The participating employers' and members' cost would only be offset with one-time state funding in FY 2019-2020.	Employer contribution rates for the PS/FF Tier 2 System will increase by 2.0 % to 14% of covered payroll beginning with FY 2020-2021. Members of the PS/FF Tier 2 System will begin paying a member contribution rate of 1.91% of covered payroll in FY 2020-2021.

Proposed Legislative Provisions

The substitute bill increases the multiplier from 1.5% to 2.0% for service earned after July 1, 2019, for the defined benefit of members of the hybrid system within the PS/FF Tier 2 System. This legislation also increases the participating employers' cap on employer contributions for the PS/FF Tier 2 System from up to 12% to up to 14% of covered payroll.

For members of the defined contribution plan within the PS/FF Tier 2 System, this bill increases the nonelective contribution made by a participating employer to a member's 401(k) account to 14%. Since the projected cost of the defined benefit component of the hybrid plan with a 2.0% multiplier is 15.91% of covered payroll, this exceeds the proposed 14.00% of covered payroll employer cap. Accordingly: 1) Members of the PS/FF Tier 2 System will begin paying a member contribution rate of 1.91% of covered payroll in FY 2020-2021; and 2) The nonelective contribution made by a participating employer to a hybrid system member's 401(k) account will be eliminated since the calculated contribution rate exceeds the 14% of covered payroll employer rate cap.

This legislation also provides a one-time appropriation from the state's General Fund of \$5.3 M to the PS/FF Tier 2 System. It also requires a study of PS/FF Tier 2 System benefit and funding items during the 2019 Interim. This proposed legislation would become effective on July 1, 2019.

Discussion and Actuarial Analysis

The actuary's table below summarizes the fiscal impact of increasing the multiplier from 1.5% to 2.0% for service earned after July 1, 2019 for the PS/FF Tier 2 System in the 2019-2020 FY:

Actuary Table 1

	Current Plan	2.0% Multiplier (Service after July 1, 2019)
Actuarial Accrued Liability	\$39.6M	\$41.4M
Actuarial Value of Assets	38.9M	38.9M
Unfunded Liability	0.7M	2.5M
Normal Cost Rate	11.34%	15.76%
Amortization Rate	0.04%	0.15%
Total Contribution Rate	11.38%	15.91%
FY 2020 Contribution \$	\$13.3M	\$18.6M

The actuary's table below shows the historical and projected payroll and cost of the PS/FF Tier 2 System (Hybrid and Defined Contribution Plan), as well as the projected cost difference if the employer contribution rate is increased to 16% of payroll as per the original version of S.B. 129.

Actuary Table 2

Tier 2 PS&FF (Hybrid and DC) Historical and Projected Payroll (\$ in Millions)					
Calendar Year	Covered Payroll	12% ER Cap	16% ER Cap	Increase (4) - (3)	Comment
(1)	(2)	(3)	(4)	(5)	(6)
2013	\$ 17	\$ 2.0			Actual
2014	35	4.2			Actual
2015	55	6.6			Actual
2016	78	9.4			Actual
2017	103	12.4			Actual
2018	132	15.8	\$ 21.1	\$ 5.3	Actual
2019	165	19.8	26.4	6.6	Projected
2020	201	24.1	32.2	8.1	Projected
2021	238	28.6	38.1	9.5	Projected
2022	275	33.0	44.0	11.0	Projected
2023	312	37.4	49.9	12.5	Projected
2024	349	41.9	55.8	13.9	Projected
2025	387	46.4	61.9	15.5	Projected
2026	425	51.0	68.0	17.0	Projected
2027	464	55.7	74.2	18.5	Projected
2028	503	60.4	80.5	20.1	Projected
2029	544	65.3	87.0	21.7	Projected

With the 2nd Substitute version, the costs in column (4) would need to be split between employer and member contributions. Under the 14% cap, employers would pay one-half the cost increase show in column (5) and a member would be required to pay most of the other one-half of the increase show in column (5). With the member contribution rate as a percentage of payroll at 15.91%, the 0.09% of contributions that would have been nonelective contributions made by a participating employer to a member's 401(k) account under the original or 1st substitute version are no longer required to be paid.

Public safety officers and firefighters who become members of URS on and after July 1, 2011 earn benefits in the PS/FF Tier 2 System. As a result, the membership and covered payroll of the PS/FF Tier 2 System will continue to rapidly increase.

The actuary comments that while the contribution rate as a percentage of payroll is expected to remain relatively constant at 15.91%, the dollar amount of the cost will increase with the change in Tier 2 covered payroll. The actuary also notes that the dollar amounts shown in columns (3) and (4) only include the contribution to the Tier 2 System and exclude the amortization payment to finance the unfunded liability to the legacy Tier 1 System. The amortization cost to the Tier I system would not change as a result of the proposed changes to the Tier 2 System.

This analysis does not distinguish between or make any assumptions about an employer that "picks up" member contributions so they will be treated as employer contributions pursuant to Internal Revenue Code Section 414(h)(2).

Other Actuarial Comments

Since the Tier I system is closed to new members, there will be a corresponding decrease in the covered payroll in the Tier I Public Safety and Firefighter Systems, which result in a decrease in the dollar contributions to those Tier I Systems. Since Tier 2 provides less generous benefits compared to the Tier I system (for the current and proposed Tier 2 benefits), there will be an overall net decrease in the total contribution effort to both systems on a combined basis in future years.

It would not take much adverse experience (investment or liability) or a future change in actuarial assumptions (e.g. a decrease in the investment return assumption) to increase the cost of the defined benefit portion of the hybrid plan even higher above the 14.00% of pay employer contribution rate, which would result in higher member contributions under the second substitute version.

This analysis is based on the language of the 2nd Substitute bill, including the 14.0% of pay employer contribution rate, and does not include the impacts of any legislation in the 2020 General Session that may result from the required PS/FF Tier 2 System benefit and funding study items described in the bill.

Actuarial 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 and 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 2019 2nd Substitute S.B. 129 will likely result in some administrative costs. Also, URS expects to work with the Retirement and Independent Entities Committee of the Legislature during the 2019 Interim as it studies the PS/FF Tier 2 System benefit and funding items described in the bill. Actuarial work will largely be a review of work performed in preparing the analysis of S.B. 129. Accordingly, administrative costs from this legislation likely will not have a material fiscal impact on URS, will be handled within existing budgets, and will not result in direct, measurable costs for URS.