

URS Fiscal Analysis of 2019 1st 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 1st 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:	Increase in actuarially determined contribution rates:
See the table 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 gross costs are \$5.3 M in FY 2019-2020, with annual increases as projected in the table below. The participating employers' cost would only be offset one-time in FY 2019-2020.	Gross contribution rates for the PS/FF Tier 2 System will increase to 16% of covered payroll without an offset beginning with 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. It also changes the amount of the nonelective contribution made by a participating employer to a hybrid system member's 401(k) account to 16% minus the normal cost rate of the enhanced defined benefit.

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 16%.

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 16% of covered payroll.

Finally, this legislation provides a one-time appropriation from the state's General Fund of \$5.3 M to the PS/FF Tier 2 System.

However, 1st Substitute S.B. 129 removes a conditional ongoing funding source of up to \$3M from growth revenues collected from the tax on the admitted insurers and a portion of the net profits earned from the sale of liquor in the Liquor Control Fund that was in the original version

of the bill . Such conditional funds would have annually been paid to URS to help fund the PS/FF Tier 2 System benefit enhancements in S.B. 129.

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:

	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.

Tier 2 PS&FF (Hybrid and DC) Historical and Projected Payroll (\$ in Millions)					
Calendar Year	Covered Payroll	12% ERCap	16% ERCap	Increase (4) - (3)	Comment
(1)	(2)	(3)	(4)	(5)	(6)
2013	5	17	2.0		Actual
2014	5	35	4.2		Actual
2015		55	6.6		Actual
2016		78	9.4		Actual
2017		103	12.4		Actual
2018		132	15.8	5	21.1 5 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

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 1 system would not change as a result of the proposed changes to the Tier 2 System.

Other Actuarial Comments

Since the Tier 1 system is closed to new members, there will be a corresponding decrease in the covered payroll in the Tier 1 Public Safety and Firefighter Systems, which result in a decrease in the dollar contributions to those Tier 1 Systems. Since Tier 2 provides less generous benefits compared to the Tier 1 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.

The projected cost of the defined contribution component of the hybrid plan with a 2.00% multiplier is 15.91% pay, which is very close to the proposed 16.00% of covered payroll employer cap. The actuary notes that the difference between the calculated contribution rate and the possible 16% of covered payroll employer rate will only provide the hybrid members a marginal defined contribution benefit. Also, 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 above the 16.00% of pay employer contribution rate. If the legislators have a secondary objective to keep the cost of the defined benefit plan below the employer contribution rate, then we recommend the legislators to consider adopting a 16% of pay employer contribution rate and a benefit multiplier less than 2.00% (e.g. adopt a 1.75% benefit multiplier).

Alternatively, the legislators could adopt a higher employer contribution requirement (e.g. 17% or 18% of covered payroll employer contribution rate) along with the 2.00% multiplier.

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 1st Substitute S.B. 129 will likely result in some administrative costs. However, such administrative costs 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.