

URS Fiscal Analysis of 2019 S.B. 167

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 S.B. 167, Public Safety and Firefighter Planned Retirement Program, has the following fiscal impact on URS and affected participating employers:

Increase in unfunded actuarial accrued liability (UAAL):	Increase in annual cost for all participating employers for Fiscal Year 2019-2020:	Increase in actuarially determined contribution rates:
\$2.34 Million	\$276,000	See Exhibits for detailed information about the contribution rate increases. These increases range from .02% to .07% for affected Public Safety and Firefighter System Funds.

Proposed Legislative Provisions

S.B. 167 establishes a new “Planned Retirement Program” that will be another exception to the Utah Code’s postretirement reemployment restrictions for qualifying Public Safety and Firefighter members. Currently URS will suspend the retirement allowance for members who become reemployed within one year of their initial date of retirement unless the member’s postretirement reemployment qualifies for one of the exceptions provided in the Postretirement Reemployment Restrictions Act.

Key features and restriction relating to this new “Planned Retirement Program” include:

- a participating employer must elect to offer its Public Safety and Firefighter employees a planned retirement option by establishing written employer policies;
- the participating employer and a willing and eligible retiree shall enter into a written agreement written agreement;
- a member who is eligible to retire and begin receiving a retirement allowance from a Public Safety and Firefighter retirement system makes an election to:
 - continue active employment with the same participating employer following the retiree's retirement date for a period of eight months; and
 - not receive any direct retirement allowance payments during the time of participation in the planned retirement program;
- during the eight-month planned retirement period, the retiree’s monthly retirement allowance is credited to a recordkeeping deferred benefit account;
- funds in a deferred benefit account do not earn interest or other investment earnings and the account also may not receive member or employer contributions;

- during the planned retirement period the retiree may not receive any employer paid retirement service credit or retirement related contributions from the participating employer;
- the participating employer that reemploys the retiree is required to contribute to URS on behalf of the working retiree the amortization rate during the eight-month planned retirement period;
- following the completion of the eight-month planned retirement period and the required actual termination of the employment, URs will make a lump sum distribution to the retiree from the deferred benefit account; and
- the employer and retiree have certain reporting obligations to URS.

This proposed legislation would become effective for eligible members who retire on or after January 1, 2020.

It is intended that the “Planned Retirement Program” established in this legislation shall be Administered as a program with deferred retirement option plan (DROP) features that do not jeopardize the tax qualified status of the affected retirement systems. To that end, the enacted statutes reserve authority for the Legislature, the Utah State Retirement Board, and URS to make adjustments to or terminate the new program. A participating employer and retiree enter into a planned retirement program agreement subject authority reserved, including suspending the right of members to enter the planned retirement program, modifying the program for future participants, or terminating the planned retirement program for all participating employers and retirees.

Discussion and Actuarial Analysis

At a high level, the impact on the cost of the member’s benefit due to changes in the postretirement reemployment provisions is determined assuming the member’s expected exit from the workforce versus when the member’s benefit commenced. It has been demonstrated in prior analysis that it is more expensive for employers to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age. This effect has been studied and documented several times for stakeholders in URS. For more background information, general discussion, and analysis of postretirement reemployment restrictions and the fiscal impact of potential changes to the working after retirement provisions, please see the letter from Gabriel Roeder Smith & Company to URS Executive Director Daniel Andersen dated September 23, 2015, including the exhibits. This letter titled, “Actuarial Analysis: Potential Changes to Working After Retirement Provisions” was presented at the Legislature’s Retirement Working Group meeting on September 24, 2015 and is available online at <http://le.utah.gov/interim/2015/pdf/00004225.pdf>. This analysis reflects the actuary’s 2015 study of historical experience and the most recent actuarial valuation of URS.

To model the anticipated change in retirement behavior, the actuary has assumed the rate of retirement for public safety members and firefighters would increase by 0.65% (i.e. multiplied by 1.0065) at each age the member is eligible to retire. This anticipated change in retirement behavior is based on: (1) an assumption that 70% of the members will elect to participate in the planned retirement program, and (2) that all employers will elect to provide this option to their employees. This cost analysis is also based on the bill's provisions that the member contributions (if any) cease while the member is in DROP and the employer contribution rate will decrease from the Board certified rate to the applicable amortization rate during this same time period. If provisions pertaining to the contribution requirement while a member is in DROP change, then there will be an impact on cost.

The attached exhibits show the fiscal impact of S.B. 167 for each system maintained by URS. The first exhibit provides the impact on the actuarially determined contribution rates and the expected increase in the dollar amount of the contribution for fiscal year 2019-2020. The second exhibit provides the impact on the unfunded actuarial accrued liability and funded ratio. This fiscal impact is based on the January 1, 2018 actuarial valuation.

The actuary notes that the employers' total contribution to the Tier 2 Public Safety and Firefighter System will remain unchanged at 12.00% of pay and the proposed legislation will result in a 0.02% decrease in the employer's contribution to the member's defined contribution account. As a result, all the Tier 2 Public Safety and Firefighter members in the hybrid plan will be financing the benefit change of the planned retirement program by receiving a smaller contribution to their defined contribution account, even if they may not utilize the planned retirement program provisions.

Other Actuarial Comments

This information is based on a preliminary review and not final actuarial analysis. Also, 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 the actuary's 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, such as post-retirement health benefits. The actuary's 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 S.B. 167 will likely result in some administrative costs but these will be handled within existing budgets and will not result in direct, measurable costs for URS.

**2019 Legislation Session
Proposed Planned Retirement Program
(8-Month DROP for Public Safety and Firefighters)
Impact on Actuarially Determined Contribution Rates
and Annual Cost for Participating Employers
(\$ in thousands)**

Fund/Division (1)	Actuarially Determined Contribution Rates			Annual Cost for FY 2019/2020 Based on Actuarially Determined Rates		
	Current (2)	Proposed		Current (5)	Proposed	
		Legislation (3)	Increase (4)		Legislation (6)	Increase (7)
I. Public Employees Contributory						
A. Local Government	11.33%	11.33%	0.00%	\$ 2,550	\$ 2,550	\$ 0
B. State and School	14.56%	14.56%	0.00%	2,647	2,647	0
C. Higher Education	15.16%	15.16%	0.00%	1,046	1,046	0
II. Public Employees Noncontributory						
A. Local Government	15.34%	15.34%	0.00%	135,853	135,853	0
B. State and School	19.05%	19.05%	0.00%	495,324	495,324	0
C. Higher Education	19.65%	19.65%	0.00%	52,551	52,551	0
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	19.31%	19.35%	0.04%	407	407	0
B. Other Division A (4% COLA)	20.95%	20.99%	0.04%	42	42	0
C. Other Division B (2.5% COLA)	21.74%	21.78%	0.04%	15	15	0
D. Other Division B (4% COLA)	18.51%	18.56%	0.05%	27	27	0
IV. Public Safety Noncontributory						
A. State	34.54%	34.59%	0.05%	40,814	40,870	56
B. Other Division A (2.5% COLA)	30.76%	30.80%	0.04%	34,764	34,809	45
C. Other Division A (4% COLA)	32.15%	32.20%	0.05%	11,267	11,284	17
D. Salt Lake City	43.69%	43.73%	0.04%	13,915	13,926	11
E. Ogden	44.06%	44.09%	0.03%	2,653	2,654	1
F. Provo	39.49%	39.52%	0.03%	2,093	2,094	1
G. Logan	38.45%	38.49%	0.04%	931	932	1
H. Bountiful	47.64%	47.66%	0.02%	905	905	0
I. Other Division B (2.5% COLA)	31.20%	31.24%	0.04%	18,237	18,257	20
J. Other Division B (4% COLA)	28.67%	28.71%	0.04%	1,297	1,299	2
V. Firefighters ²						
A. Division A	11.69%	11.73%	0.04%	3,560	3,575	15
B. Division B	9.68%	9.75%	0.07%	8,200	8,265	65
VI. Judges ²	49.32%	49.32%	0.00%	9,255	9,255	0
VII. Tier II - Hybrid Plans ³						
A. Public Employees	8.97%	8.97%	0.00%	143,647	143,647	0
B. Public Safety and Firefighter	11.30%	11.32%	0.02%	18,336	18,378	42
VIII. Grand Total				\$ 1,000,336	\$ 1,000,612	\$ 276

Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2018 actuarial valuation.

¹ The analysis is based on the increase in the actuarially determined contribution rates, which identifies the required increase in the Board certified contribution rate.

² These contribution rates are before reflecting offsets for insurance premiums and court fees.

³ These rates for the Tier II Hybrid Funds exclude the Tier I amortization payment and the 3% Substantial Substitute.

2019 Legislation Session
Proposed Planned Retirement Program
(8-Month DROP for Public Safety and Firefighters)
Impact on Actuarially Determined Contribution Rates
and Annual Cost for Participating Employers
(\$ in thousands)

Fund/Division (1)	Unfunded Actuarial Accrued Liability			Funded Ratio		
	Current (2)	Proposed Legislation (3)	Increase (4)	Current (5)	Proposed Legislation (6)	Decrease (7)
I. Public Employees Contributory						
A. Local Government	\$ 21,820	\$ 21,820	\$ 0	95.2%	95.2%	0.00%
B. State and School	24,384	24,384	0	96.4%	96.4%	0.00%
C. Higher Education	7,538	7,538	0	95.2%	95.2%	0.00%
II. Public Employees Noncontributory						
A. Local Government	593,905	593,905	0	89.0%	89.0%	0.00%
B. State and School	2,549,300	2,549,300	0	87.5%	87.5%	0.00%
C. Higher Education	243,708	243,708	0	86.6%	86.6%	0.00%
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	2,753	2,763	10	97.7%	97.7%	0.00%
B. Other Division A (4% COLA)	314	315	1	98.7%	98.7%	0.00%
C. Other Division B (2.5% COLA)	89	89	0	99.7%	99.7%	0.00%
D. Other Division B (4% COLA)	131	131	0	98.5%	98.5%	0.00%
IV. Public Safety Noncontributory						
A. State	204,975	205,533	558	85.1%	85.0%	-0.10%
B. Other Division A (2.5% COLA)	145,659	146,207	548	87.0%	86.9%	-0.10%
C. Other Division A (4% COLA)	50,389	50,575	186	85.2%	85.2%	0.00%
D. Salt Lake City	96,015	96,158	143	74.7%	74.7%	0.00%
E. Ogden	20,269	20,296	27	75.9%	75.9%	0.00%
F. Provo	13,450	13,478	28	78.9%	78.9%	0.00%
G. Logan	6,027	6,040	13	82.4%	82.4%	0.00%
H. Bountiful	6,864	6,871	7	74.8%	74.8%	0.00%
I. Other Division B (2.5% COLA)	72,562	72,772	210	83.0%	83.0%	0.00%
J. Other Division B (4% COLA)	4,134	4,152	18	91.5%	91.4%	-0.10%
V. Firefighters						
A. Division A	3,742	3,861	119	98.3%	98.2%	-0.10%
B. Division B	7,502	7,943	441	99.2%	99.2%	0.00%
VI. Judges	46,396	46,396	0	80.5%	80.5%	0.00%
VII. Tier II - Hybrid Plans ²						
A. Public Employees	17,664	17,664	0	94.7%	94.7%	0.00%
B. Public Safety and Firefighter	731	760	29	98.2%	98.1%	-0.10%
VIII. Grand Total	\$ 4,140,321	\$ 4,142,659	\$ 2,338	87.4%	87.4%	0.00%

Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2018 actuarial valuation.