

URS Fiscal Analysis of 2020 S.B. 56

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, 2020 S.B. 56, Public Safety and Firefighter Tier II Retirement Enhancements, has no material fiscal impact on URS and affected participating employers generally. It should be noted that the 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) changes is based on provisions enacted in 2019 S.B. 129.

Increase in unfunded actuarial accrued liability (UAAL):	Increase in annual cost for all participating employers:	Increase in actuarially determined contribution rates:
None	None required. An employer may elect to formally “pick-up” employee contributions for Hybrid System members, which would also result in required increases to the nonelective contribution made by a participating employer to members’ 401(k) for Defined Contribution Plan members.	None required. Gross contribution rates for the PS/FF Tier 2 System will not increase from those shown in the attached exhibit for FY 2020-2021 preliminary PS/FF Tier 2 System contribution rates based on 2019 S.B. 129. An employer’s optional “pick-up” election would not increase the normal cost portion of the contribution rates but would result in higher employer contributions paid to cover the picked-up employee contribution amounts.

Proposed Legislative Provisions

As background information, 2019 S.B. 129: 1) Increased 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; 2) Increased 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; and 3) For members of the defined contribution plan within the PS/FF Tier 2 System, it increased the nonelective contribution made by a participating employer to a member’s 401(k) account to 14%.

S.B. 56 changes are related to or based on the provisions enacted in 2019 S.B. 129. First, this legislation provides certain funding mechanisms that may be used only to fund state agency costs associated with retirement benefits provided to members of the PS/FF Tier 2 System. Second, this bill requires a participating employer to make an additional nonelective

contribution to an employee that is a member of the PS/FF Tier 2 Defined Contribution Plan, if the participating employer elects to pay the required member contribution as an employer pick up for employees that are members of the PS/FF Tier 2 Hybrid Retirement System. Finally, this legislation amends the line-of-duty death benefits payable to the surviving spouse of an active member of the PS/FF Tier 2 System.

This proposed legislation will become effective on July 1, 2020, which is the same effective date as the changes previously enacted in 2019 S.B. 129 with a delayed effective date.

Discussion and Actuarial Analysis/ Data and Assumptions

Gross contribution rates for the PS/FF Tier 2 System will not increase from those shown in the attached exhibit for FY 2020-2021 preliminary PS/FF Tier 2 System contribution rates based on 2019 S.B. 129.

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. While the normal cost portion of contribution rate as a percentage of payroll is expected to remain relatively constant at 16.27%, for the Hybrid System, the dollar amount of the cost will increase with the change in Tier 2 covered payroll. The amortization cost to the Tier I system would not change as a result of the proposed changes to the Tier 2 System.

The gross costs for the State of Utah as an employer would be the net costs after any funding offsets to the gross costs from the legislation's enactment of the "New Public Safety and Firefighter Tier II Retirement Benefits Restricted Account" (Account). This conditional funding would be paid to URS to help fund the PS/FF Tier 2 System benefit enhancements in 2019 S.B. 129. Neither URS nor its actuary are familiar with or have reviewed historical revenue collections related to the revenues for the Account. Accordingly, we have not projected potential collections from these nor have we made any assumptions about this potential PS/FF Tier 2 System funding offset source. Since Account monies may only be appropriated to offset state agency costs, the Account does not offset the costs for other participating employers.

The actuary determined that the line-of-duty death benefits payable to the surviving spouse of an active member of the PS/FF Tier 2 System amended in Utah Code Section 49-23-503 in this legislation are not anticipated to materially increase the UAAL or require an increase in actuarially determined contribution rates.

An employer's optional "pick-up" election would not increase the normal cost portion of the contribution rates but would result in higher employer contributions paid to cover the employee contribution amounts. For example, if an employer elected to "pick-up" all of the required employee Hybrid System contributions, the employer would pay the total required contributions shown in column (7) of the attached exhibit for FY 2020-2021 preliminary PS/FF Tier 2 System contribution rates based on 2019 S.B. 129. In addition, that employer's optional

election would result in the amount being “picked-up” (2.27% in this example) being added to the employer required contributions shown in column (5) of the exhibit for the Tier 2 Defined Contribution Plan.

Other Actuarial Comments

The projected cost of the defined contribution component of the hybrid plan with a 2.00% multiplier is 16.27% pay, which with the 2.27% in required employee contributions, equals the required total contributions. The actuary notes that with no difference between the calculated contribution rate and the total required contributions, this means that the Hybrid System members will not receive a defined contribution benefit unless other elective contributions are made. 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 16.27% of pay contribution rate, which will result in additional employee contributions (unless they are “picked-up” by the employer). If legislators have a secondary objective to keep the cost of the defined benefit plan below the employer contribution rate, then the actuary points out that legislators could adopt a higher contribution requirement (e.g. 16.5%, 17%, etc.) of covered payroll employer contribution rate) to provide Hybrid System members with a defined contribution benefit as well as to provide a cushion from adverse experience.

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 2020 S.B. 56 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.

Utah Retirement Systems
Preliminary Tier 2 Retirement Contribution Rates as a Percentage of Salary and Wages
Fiscal Year July 1, 2020 - June 30, 2021

	Preliminary Tier 2 Hybrid Retirement System							Preliminary Tier 2 Defined Contribution Plan				Employer Increase (Decrease) From Prior Year. ²	
	(1) Employer Tier 2 Rate	(2) Employee Tier 2 Rate	(3) Hybrid Plan DB Plan Rate	(4) Hybrid Plan DC Plan Rate (1)-(2)	(5) Death Benefit*	(6) Tier I Amortization %	(7) Total Required Contribution (2)+(3)+(4)+(5)+(6)	(1) Employer Tier 2 Rate	(2) Employee Tier 2 Rate	(3) Death Benefit*	(4) Tier I Amortization %		(5) Total Required Contribution (1)+(2)+(3)+(4)
Public Employers													
Contributory Retirement System													
11- Local Government	9.11	0.00	9.11	0.89	0.08	8.37	18.45	10.00	0.00	0.08	8.37	18.45	0.00
Public Employers													
Noncontributory Retirement System													
15- Local Government	9.11	0.00	9.11	0.89	0.08	6.61	16.69	10.00	0.00	0.08	6.61	16.69	0.00
16- State and School ¹	9.11	0.00	9.11	0.89	0.08	9.94	20.02	10.00	0.00	0.08	9.94	20.02	0.00
18- Higher Education	9.11	0.00	9.11	0.89	0.08	9.94	20.02	10.00	0.00	0.08	9.94	20.02	0.00
Public Safety													
Contributory Retirement System													
23- Other Division A (2.5% COLA)	16.27	2.27	14.00	0.00	0.08	11.77	28.12	14.00	0.00	0.08	11.77	25.85	2.00
77- Other Division A (4.0% COLA)	16.27	2.27	14.00	0.00	0.08	12.93	29.28	14.00	0.00	0.08	12.93	27.01	2.00
29- Other Division B (2.5% COLA)	16.27	2.27	14.00	0.00	0.08	9.77	26.12	14.00	0.00	0.08	9.77	23.85	2.00
74- Other Division B (4.0% COLA)	16.27	2.27	14.00	0.00	0.08	15.94	32.29	14.00	0.00	0.08	15.94	30.02	2.00
Public Safety													
Noncontributory Retirement System													
42- State	16.27	2.27	14.00	0.00	0.08	18.46	34.81	14.00	0.00	0.08	18.46	32.54	2.00
43- Other Division A (2.5% COLA)	16.27	2.27	14.00	0.00	0.08	11.75	28.10	14.00	0.00	0.08	11.75	25.83	2.00
75- Other Division A (4.0% COLA)	16.27	2.27	14.00	0.00	0.08	12.91	29.26	14.00	0.00	0.08	12.91	26.99	2.00
44- Salt Lake City	16.27	2.27	14.00	0.00	0.08	24.20	40.55	14.00	0.00	0.08	24.20	38.28	2.00
45- Ogden	16.27	2.27	14.00	0.00	0.08	26.30	42.65	14.00	0.00	0.08	26.30	40.38	2.00
46- Provo	16.27	2.27	14.00	0.00	0.08	19.61	35.96	14.00	0.00	0.08	19.61	33.69	2.00
47- Logan	16.27	2.27	14.00	0.00	0.08	19.37	35.72	14.00	0.00	0.08	19.37	33.45	2.00
48- Bountiful	16.27	2.27	14.00	0.00	0.08	26.89	43.24	14.00	0.00	0.08	26.89	40.97	2.00
49- Other Division B (2.5% COLA)	16.27	2.27	14.00	0.00	0.08	9.66	26.01	14.00	0.00	0.08	9.66	23.74	2.00
76- Other Division B (4.0% COLA)	16.27	2.27	14.00	0.00	0.08	15.94	32.29	14.00	0.00	0.08	15.94	30.02	2.00
Firefighters' Retirement System													
31- Division A**	16.27	2.27	14.00	0.00	0.08	0.00	16.35	14.00	0.00	0.08	0.00	14.08	2.00
32- Division B**	16.27	2.27	14.00	0.00	0.08	0.00	16.35	14.00	0.00	0.08	0.00	14.08	2.00

* Employer paid active member death benefit (75% of salary) per Utah Code Section 49-22-501 and 49-23-501.

** For Firefighters, the fire insurance premium offset was applied first to the amortization charge, leaving no amount owed to Tier I by employers for Tier 2 Firefighters

1 Public School Districts and Charter School rates are effective September 1, 2020 - August 31, 2021

2 The employer contribution rate increased by 2.00% of pay for the Tier 2 Public Safety and Firefighter System (Hybrid and Defined Contribution) and the employee contribution rate increased by 2.27% of pay for the Tier 2 Public Safety and Firefighter Hybrid Plan. This results in a total increase of 4.27% of pay in the Tier 2 Public Safety and Firefighter Hybrid Plan and a total increase of 2.00% of pay in the Tier 2 Public Safety and Firefighter Defined Contribution