URS Fiscal Analysis of 2022 1st Substitute H.B. 12, "Public Safety Retirement Amendments"

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, 1st Substitute H.B. 12, Public Safety Retirement Amendments, has the following fiscal impact on URS and affected participating employers and members:

Increase in unfunded actuarial accrued liability (UAAL):	Increase in annual cost for affected participating employers and members for Fiscal Year 2022-2023:	Increase in actuarially determined contribution rates:
$33.33 Million	$10.44 Million for all Tier 1 Public Safety and Firefighter funds. Note: The increase in annual cost (and contribution rates) due to this bill will only be for four fiscal years.	See Exhibits for detailed information about the contribution rate increases, but ranges are: • Tier 1 Public Safety System Funds: Increases ranging from 1.18% to 2.10% • Tier 1 Firefighters' Retirement System Funds: Increases ranging from 1.24% to 0.64%

Proposed Legislative Provisions

The substitute version of the bill does not make three distinct retirement benefit changes to the Tier 2 Public Safety and Firefighter Retirement System that were in the original version of the bill.

This bill amends Utah Code Title 49, Chapter 11, Part 12, the Postretirement Reemployment Restrictions Act. This This new exception would provide a 42-month window (i.e. January 1, 2023 to June 30, 2026) where the required separation period for Tier 1 and Tier 2 public safety and firefighter retirees would be reduced from one year to 60 days to seek reemployment and continue their monthly retirement allowance uninterrupted. Current Utah law requires URS to 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 statutes.

Discussion and Actuarial Analysis

The attached exhibits provide the financial impacts of this bill. The first exhibit provides the impact on the actuarially determined contribution rates and the expected increase in the dollar amount of the contribution beginning with fiscal year 2022-2023 for all funds, which would be $10.44 million annually.

The second exhibit provides the total impact on the unfunded actuarial accrued liability and funded ratio. In sum, the increase in the unfunded actuarial liability for all funds is $33.33 million.

As will be explained below, for this bill this cost is not a one-time increase in the contribution requirement, but rather the increase in annual cost (and contribution rates) due to this bill's sunset date will only be for four fiscal years.

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 actuarial analysis that it is more expensive 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.

The actuary has previously modeled a proposed change if the reduction in the separation period was permanent and effective for all future years. The difference between that prior proposed legislation and this proposed bill is the June 30, 2026 sunset date. The increase in the actuarially determined contribution rates consist of two components: (1) a change in the normal cost rate, and (2) an amortization cost to finance the increase in the unfunded actuarially accrued liability. The period to finance the increase in the actuarially accrued liability is determined by URS based upon the actuary's recommendation. The actuary believes it is fiscally responsible and best practice if the number of years to amortize the change in unfunded liability coincides with the time-period with the benefit change. As a result, the actuary recommended to URS that the cost associated with this bill be amortized over a four-year period.

If this legislation is enacted then the increase in the employer contribution rate will only be for the fiscal period beginning July 1, 2022 and ending June 30, 2026 (the sunset date of this legislation).

The actuary believes there are several reasons for making this annual cost coincide with the window time-period. The cost of the enhancement is aligned with the time-period of the benefit enhancement, resulting in an intergenerational equity alignment. It would be inconsistent with best practices to determine a contribution rate in effect for a longer time period (e.g. 10-years or 20-years) for an enhancement that is only available for three and a half years. Also, if there is subsequent legislation enacted that extends the window provided by this bill, then an appropriate contribution requirement can be determined for that legislation and become effective, when the contribution rate increase for this bill sunsets.

To model the anticipated change in retirement behavior in this window, the retirement rates for public safety members and firefighters were increased by 6% and 2%, respectively for anticipated retirements under age 60. This is the same assumption used to model the cost impact in prior postretirement reemployment cost analyses. It is possible there will be slightly higher number of retirements due to pent-up demand and the fact this is a temporary window. If there are more retirements than expected, the actual cost could be higher, but the potential actuarial loss would be limited because of the sunset provision.

There is no cost impact for the Tier 2 Public Safety and Firefighter System, because of the minimal number of members being retirement eligible during the 42-month window. The actuary has also assumed that eligible retirees who utilize this window will not have their retirement allowance suspended if they continue their reemployment beyond the June 20, 2026, sunset date.

Other Actuarial Comments

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 employer costs or 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 current working retiree restrictions or the proposed changes. Benefit changes are policy and financial decisions for the Legislature, employers, and members. URS' responsibility is to inform stakeholders about the impacts of changes to rules and benefits on contribution rates, including providing fiscal analysis on bills.

Administrative Cost Analysis

As with all bills that alter benefit design or make substantive benefit modifications, implementation of this bill 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.

Proposed Legislation 2022 H.B. 12 1st Sub

Modification to the Postretirement Reemployment Provisions for the Public Safety and Firefighter Systems

Modification is Temporary and Effective Beginning January 1, 2023 and Ending July 1, 2026

Exhibit 1. Impact on Actuarially Determined Contribution Rates and Annual Cost for Participating Employers

Note: The Increase in the Contribution Rates are Only Effective for Four (4) Years beginning with FYE 2023

($ in thousands)

	Fund/Division	Actuarially Determined Contribution Rates[2]			Annual Cost[1] for FY 2022/2023 Based on Actuarially Determined Rates		
		Current	Proposed Legislation	Increase	Current	Proposed Legislation	Increase
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	Public Employees Contributory						
	A. Local Government	10.55%	10.55%	0.00%	$ 1,890	$ 1,890	$ 0
	B. State and School	14.54%	14.54%	0.00%	1,776	1,776	0
	C. Higher Education	13.53%	13.53%	0.00%	595	595	0
II.	Public Employees Noncontributory						
	A. Local Government	14.56%	14.56%	0.00%	130,213	130,213	0
	B. State and School	19.03%	19.03%	0.00%	542,626	542,626	0
	C. Higher Education	18.02%	18.02%	0.00%	39,091	39,091	0
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	19.66%	21.48%	1.82%	466	522	56
	B. Other Division A (4% COLA)	19.26%	19.98%	2.03%	21	24	3
	C. Other Division B (2.5% COLA)	22.16%	22.51%	1.32%	20	22	2
	D. Other Division B (4% COLA)	14.91%	15.27%	1.18%	13	15	2
IV.	Public Safety Noncontributory						
	A. State	32.80%	34.56%	1.76%	36,243	38,818	2,575
	B. Other Division A (2.5% COLA)	30.99%	32.72%	1.73%	36,397	39,268	2,871
	C. Other Division A (4% COLA)	30.79%	32.89%	2.10%	10,073	11,026	953
	D. Salt Lake City	40.84%	42.43%	1.59%	12,677	13,253	576
	E. Ogden	41.31%	43.14%	1.83%	2,115	2,238	123
	F. Provo	38.40%	40.17%	1.77%	2,106	2,229	123
	G. Logan	37.56%	39.66%	2.10%	896	963	67
	H. Bountiful	43.41%	44.76%	1.35%	877	909	32
	I. Other Division B (2.5% COLA)	31.59%	33.18%	1.59%	19,244	20,496	1,252
	J. Other Division B (4% COLA)	24.82%	26.24%	1.42%	976	1,067	91
V.	Firefighters[3]						
	A. Division A	10.82%	11.46%	0.64%	3,279	3,615	336
	B. Division B	7.18%	8.42%	1.24%	4,953	6,328	1,375
VI.	Judges[3]	48.62%	48.62%	0.00%	10,556	10,556	0
VII.	Tier II - Hybrid Plans[4]						
	A. Public Employees	9.82%	9.82%	0.00%	238,993	238,993	0
	B. Public Safety and Firefighter	16.59%	16.59%	0.00%	46,121	46,121	0
VIII.	Grand Total				$ 1,142,217	$ 1,152,654	$ 10,437

[1] Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2021 actuarial valuation. The analysis is based on the increase in the actuarially determined contribution rates, which identifies the required increase in the Board certified contribution rate. The increase in the contribution rates due to this legislation are effective for four (4) years beginning FYE 2023.

[2] The actuarially determined contribution rates may be less than the recommended contribution rates because they do not reflect the Board's policy of maintaining the prior year's rate, if greater, as permitted by U.C. Sec. 49-11-301(5). Except where stated, the rates include the cost of the 3% Substantial Substitute.

[3] These contribution rates are before reflecting offsets for insurance premiums and court fees.

[4] The actuarially determined contribution rates before reflecting the maximum employer contribution rate to the hybrid plan. These rates also exclude the Tier I amortization payment and the 3% Substantial Substitute. The normal cost excludes the 75% of pay death benefit provided to active members. The actuarially determined rate in excess of the employer contribution rate will be financed by member contributions.

Proposed Legislation 2022 H.B. 12 1st Sub

Modification to the Postretirement Reemployment Provisions for the Public Safety and Firefighter Systems

Modification is Temporary and Effective Beginning January 1, 2023 and Ending July 1, 2026

Exhibit 2. Impact on Unfunded Actuarial Accrued Liability and Funded Ratio by Fund Determined on an Actuarial Value of Asset Basis

($ in thousands)

		Unfunded Actuarial Accrued Liability[1]			Funded Ratio[1]		
	Fund/Division	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Decrease
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	Public Employees Contributory						
	A. Local Government	$ 15,570	$ 15,570	$ 0	96.6%	96.6%	0.0%
	B. State and School	16,624	16,624	0	97.4%	97.4%	0.0%
	C. Higher Education	3,729	3,729	0	97.7%	97.7%	0.0%
II.	Public Employees Noncontributory						
	A. Local Government	531,457	531,457	0	91.7%	91.7%	0.0%
	B. State and School	2,913,739	2,913,739	0	87.7%	87.7%	0.0%
	C. Higher Education	134,501	134,501	0	93.3%	93.3%	0.0%
III.	Public Safety Contributory						
	A. Other Division A (2.5% COLA)	3,289	3,465	176	97.2%	97.0%	-0.2%
	B. Other Division A (4% COLA)	164	176	12	99.2%	99.2%	0.0%
	C. Other Division B (2.5% COLA)	121	126	5	99.6%	99.6%	0.0%
	D. Other Division B (4% COLA)	16	22	6	99.8%	99.8%	0.0%
IV.	Public Safety Noncontributory						
	A. State	174,321	182,599	8,278	88.8%	88.4%	-0.4%
	B. Other Division A (2.5% COLA)	168,778	178,021	9,243	87.4%	86.8%	-0.6%
	C. Other Division A (4% COLA)	44,435	47,509	3,074	89.0%	88.3%	-0.7%
	D. Salt Lake City	85,532	87,364	1,832	79.9%	79.5%	-0.4%
	E. Ogden	17,139	17,535	396	80.8%	80.5%	-0.3%
	F. Provo	14,206	14,602	396	80.8%	80.3%	-0.5%
	G. Logan	6,106	6,327	221	84.3%	83.8%	-0.5%
	H. Bountiful	6,396	6,496	100	78.2%	77.9%	-0.3%
	I. Other Division B (2.5% COLA)	84,772	88,684	3,912	85.0%	84.5%	-0.5%
	J. Other Division B (4% COLA)	737	1,020	283	98.7%	98.2%	-0.5%
V.	Firefighters						
	A. Division A	(6,447)	(5,415)	1,032	102.4%	102.0%	-0.4%
	B. Division B	(39,452)	(35,088)	4,364	103.5%	103.1%	-0.4%
VI.	Judges	47,287	47,287	0	82.9%	82.9%	0.0%
VII.	Governors and Legislative	2,070	2,070	0	84.5%	84.5%	0.0%
VIII.	3% Substantial Substitute	281,500	281,503	3	46.5%	46.5%	0.0%
IX.	Tier II - Hybrid Plans						
	A. Public Employees	85,223	85,223	0	90.3%	90.3%	0.0%
	B. Public Safety and Firefighter	16,804	16,804	0	87.2%	87.2%	0.0%
X.	Grand Total	$ 4,608,617	$ 4,641,950	$ 33,333	88.8%	88.8%	0.0%

[1] Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2021 actuarial valuation.