URS Fiscal Analysis of 2022 1st Substitute H.B. 233

This document has been prepared by the Utah Retirement Systems (URS) based on agency analysis and information received from its consulting actuary, Gabriel Roeder Smith & Company.

Summary of Fiscal Impact

If enacted, 2022 1st Substitute H.B. 233, Disability Benefit Amendments, will have fiscal impact on the URS. Below is a table providing a summary of that annual cost.

Fiscal Cost for FY 2023, 2024, 2025	
Retirement System	Annual $ Cost
Tier 1 Public Employees' System	$336,000
Tier 1 Public Safety System	$37,000
Tier 1 Firefighter Funds	$158,000
Tier 2 Hybrid Funds (PE and PS&FF)	Negligible

Proposed Legislative Provisions

This bill allows an eligible employee to receive certain disability benefits for an objective medical impairment regardless of whether the impairment is physical or mental. For retirement, this bill eliminates the 2-year limit for disability benefits attributable to a mental impairment. The material change in the 1st Substitute version of the bill is to recognize mental health impairment during a three-year pilot period between May 4, 2022 and May 3, 2025.

Discussion and Actuarial Analysis

For this substitute bill, the actuary believes it is reasonable to conclude that the fiscal cost on the retirement systems will be equal to the annual cost previously provided regarding H.B. 233, but only applicable for the Fiscal Years 2023, 2024, and 2025, which is the time period the pilot period is in effect. As mentioned in the actuary's analysis for the original version of the bill, the annual cost is based on an assumption used to model long-term incidence of mental health impairment. It is possible the incidence of mental health impairment during the pilot period will be higher than assumed due to stresses introduced to employees in the last two years due to the COVID-19 pandemic. However, the actuary believes the risk of the pandemic related mental health impairments producing a significantly larger cost than those projected in the fiscal analysis is materially greater for the insurance related benefits than for the cost of the retirement income benefits show in the table above.

The consulting actuary has determined that the proposed elimination of the 2-year limit for disability benefits attributable to a mental impairment would increase the Tier 1 Public

Employees' Retirement Systems contribution rate by approximately 1 basis point resulting in an approximate $336,000 increase in the annual cost.

Similarly, the Tier 1 Public Safety Retirement Systems contribution rates would increase 1 to 3 basis points (depending on fund) resulting in a $37,000 increase in the annual cost for those funds.

The contribution rates for the Tier 1 Division A and Division B Firefighter Retirement System funds would increase by 20 and 14 basis points, respectively resulting in a $158,000 increase in annual cost.

Because the Tier 1 funds are closed to new members, the annual cost due to the proposed change would gradually decrease as the number of members earning Tier 1 benefits decline.

The fiscal impact to the Tier 2 Hybrid Plan System (Public Employees' Tier 2Retirement System and Public Safety and Firefighter Tier 2 Retirement System) are negligible.

Since this proposed legislation is assumed to apply prospectively, there is no material change in the actuarial accrued liability.

Note, employers who elect to cover their employees under the Benefit Protection Contract would experience a prospective increase in annual cost equal to the employer's Tier 2 contribution rate times the imputed payroll of future mental impaired disabled members whose disability duration extends beyond 2 years.

Other Comments

To model the expected cost of this proposed change, the consulting actuary used claims analysis prepared by PEHP, which expected an approximate 30% increase in claims due to mental-related disabilities. This increase is about twice the change expected a couple years ago (prior to COVID-19). The actuary agrees with PEHP that mental related disabilities are a greater issue due to COVID-19. However, since the assumptions used in an actuarial valuation are used to model behavior over a long time period (e.g. the next 20 to 30 years), the actuary believe it is appropriate for this analysis to give partial credibility to the prior and current expectations, which resulted in the actuary increasing the current disability incidence rates by 20% (i.e. multiply the current incidence rate by 1.20). Note that a primary reason this proposed benefit change has a relatively small cost impact on the retirement systems is because the disability income benefits provided by the retirement systems are more comparable to a deferred income benefit provided to inactive members than an immediate retirement allowance provided to a service retiree.

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 this bill may result in some administrative costs. If such costs are incurred, they will be handled within existing budgets and will not result in direct, measurable additional costs for URS.