

## URS Fiscal Analysis of 2022 H.B. 348, "Educator 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, H.B. 348, Educator Retirement Amendments, has the following fiscal impact on URS, affected participating employers, and Tier 2 members:

Increase in unfunded actuarial accrued liability (UAAL):	Increase in ongoing annual cost for affected participating employers and Tier 2 Members for Fiscal Year 2022-2023:	Increase in actuarially determined contribution rates:
\$88.75 Million	\$9.26 Million	See Exhibits for detailed information about the contribution rate increases: <ul style="list-style-type: none"> <li>• Tier 1 Public Employees' System, State and School Fund: 0.25%</li> <li>• Tier 1 Public Employees' System, Higher Education Fund: 0.09%</li> <li>• Tier 2 Public Employees' System: 0.03%</li> </ul>

### Proposed Legislative Provisions

This bill amends Utah Code Title 49, Chapter 11, Part 12, the Postretirement Reemployment Restrictions Act to enact a new exception for licensed educator retirees, effective beginning on January 1, 2023. 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.

This new exception reduces the required period of separation to return to work for a local education agency participating employer and keep receiving a monthly retirement allowance from one year to 60 days for a retiree who holds an educator license and provides educational services. In addition, a qualifying retiree may not receive retirement service credit or retirement-related contributions.

### Discussion and Actuarial Analysis

The fiscal impact provided in the attached exhibits reflect the benefit changes in this legislation. The increase in the contribution requirement for all funds would be \$9.26 million annually. This

is an annual cost and not a one-time increase in the contribution requirement. Specifically, 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 2022-2023 for all funds. Also, it should be noted that while the contribution rate as a percentage of payroll is expected to remain relatively constant at the rates shown in the exhibit, the dollar amount of the cost will change with the expected respective changes in Tier 1 and Tier 2 covered payroll, both as the membership and pay change.

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 \$88.75.

Note, the exemption in this proposed legislation does not apply to members who are not licensed educators in the Public Employees' system. Because of the various types of members earning benefits in the funds maintained by URS, a cost subsidy will occur in the State and School Fund and Higher Education Fund of the Tier 1 Public Employees' Systems as well as the Tier 2 Public Employees' Hybrid Systems because the increased contribution rate will apply to the entire payroll of members covered by the fund, which results in increased cost for employers (and Tier 2 Public Employees' System members) who may not have employees or be eligible to benefit from this additional exemption. All Tier 2 Public Employees' System Hybrid members will have 0.03% less contributed to their 401(k) accounts as this bill increases defined benefit normal cost but employers will continue to pay the maximum 10.0% of payroll toward retirement benefits.

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>.

To model the anticipated change in retirement behavior, the actuary has assumed the rate of retirement for members with an "educator" code in the URS census data would increase by 6% at each age prior to age 65. This assumption is based on prior analysis of the change in retirement behavior after the current reemployment provisions were enacted and effective in 2010. Note, this assumption modification is intended to model expected long-term trends in retirement. It is possible there may be more actual retirements in the next 12 months following

the enactment of this legislation due to pent-up demand in eligible retirees; however the actuary believes this assumption is reasonable for valuing the long-term cost of the system.

As noted by URS, there is currently not a way to specifically identify retirees who hold educator licenses and are reemployed with a local education agency to provide educational services. However, based on current participating employer reporting, the URS census data identifies public employee members with an "educator" code. While the adjusted retirement rates have been applied to all members classified as educators, the actuary believes the resulting fiscal impact is suitable for identifying the potential cost of this proposed legislation.

The actuary notes that the calculated contribution rate in the Tier 2 System is reduced to 0.15% below the 10% of covered payroll employer rate so that the hybrid members will receive a reduced defined contribution benefit, except as the members make elective contributions. Also, it would take less adverse experience (investment or liability) or a future change in actuarial assumptions (e.g., a decrease in the investment return assumption) to further increase the cost of the defined benefit portion of the hybrid plan.

Since the changes to return to work provisions for Tier 2 members are being made sooner than later in these members' careers, the cost impact is lower now, versus a larger contribution impact if return to work restrictions were enacted later in the Tier 2 members' careers (like is being done with Tier 1).

#### 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. 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. 348**  
**Modification to the Postretirement Reemployment Provisions for Retirees Reemployed**  
**with a Local Education Agency to Provide Educational Services**

**Exhibit 1. Impact on Actuarially Determined Contribution Rates**  
**and Annual Cost for Participating Employers**  
**(\$ in thousands)**

Fund/Division (1)	Actuarially Determined Contribution Rates <sup>2</sup>			Annual Cost <sup>1</sup> for FY 2022/2023 Based on Actuarially Determined Rates		
	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Increase
	(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%	14.79%	0.25%	1,776	1,808	32
C. Higher Education	13.53%	13.62%	0.09%	595	598	3
II. Public Employees Noncontributory						
A. Local Government	14.56%	14.56%	0.00%	130,213	130,213	0
B. State and School	19.03%	19.28%	0.25%	542,626	550,606	7,980
C. Higher Education	18.02%	18.11%	0.09%	39,091	39,298	207
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	19.66%	19.66%	0.00%	466	466	0
B. Other Division A (4% COLA)	19.26%	19.26%	0.00%	21	21	0
C. Other Division B (2.5% COLA)	22.16%	22.16%	0.00%	20	20	0
D. Other Division B (4% COLA)	14.91%	14.91%	0.00%	13	13	0
IV. Public Safety Noncontributory						
A. State	32.80%	32.80%	0.00%	36,243	36,243	0
B. Other Division A (2.5% COLA)	30.99%	30.99%	0.00%	36,397	36,397	0
C. Other Division A (4% COLA)	30.79%	30.79%	0.00%	10,073	10,073	0
D. Salt Lake City	40.84%	40.84%	0.00%	12,677	12,677	0
E. Ogden	41.31%	41.31%	0.00%	2,115	2,115	0
F. Provo	38.40%	38.40%	0.00%	2,106	2,106	0
G. Logan	37.56%	37.56%	0.00%	896	896	0
H. Bountiful	43.41%	43.41%	0.00%	877	877	0
I. Other Division B (2.5% COLA)	31.59%	31.59%	0.00%	19,244	19,244	0
J. Other Division B (4% COLA)	24.82%	24.82%	0.00%	976	976	0
V. Firefighters <sup>3</sup>						
A. Division A	10.82%	10.82%	0.00%	3,279	3,279	0
B. Division B	7.18%	7.18%	0.00%	4,953	4,953	0
VI. Judges <sup>3</sup>	48.62%	48.62%	0.00%	10,556	10,556	0
VII. Tier II - Hybrid Plans <sup>4</sup>						
A. Public Employees	9.82%	9.85%	0.03%	238,993	240,034	1,041
B. Public Safety and Firefighter	16.59%	16.59%	0.00%	46,121	46,121	0
VIII. Grand Total				\$ 1,142,217	\$ 1,151,480	\$ 9,263

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> These contribution rates are before reflecting offsets for insurance premiums and court fees.

<sup>4</sup> 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. 348**  
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**Exhibit 2. Impact on Unfunded Actuarial Accrued Liability and Funded Ratio**  
**by Fund Determined on an Actuarial Value of Asset Basis**  
**(\$ in thousands)**

Fund/Division (1)	Unfunded Actuarial Accrued Liability <sup>1</sup>			Funded Ratio <sup>1</sup>		
	Current (2)	Proposed Legislation (3)	Increase (4)	Current (5)	Proposed Legislation (6)	Decrease (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	17,027	403	97.4%	97.4%	0.0%
C. Higher Education	3,729	3,758	29	97.7%	97.6%	-0.1%
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	2,996,720	82,981	87.7%	87.4%	-0.3%
C. Higher Education	134,501	135,970	1,469	93.3%	93.2%	-0.1%
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	3,289	3,289	0	97.2%	97.2%	0.0%
B. Other Division A (4% COLA)	164	164	0	99.2%	99.2%	0.0%
C. Other Division B (2.5% COLA)	121	121	0	99.6%	99.6%	0.0%
D. Other Division B (4% COLA)	16	16	0	99.8%	99.8%	0.0%
IV. Public Safety Noncontributory						
A. State	174,321	174,321	0	88.8%	88.8%	0.0%
B. Other Division A (2.5% COLA)	168,778	168,778	0	87.4%	87.4%	0.0%
C. Other Division A (4% COLA)	44,435	44,435	0	89.0%	89.0%	0.0%
D. Salt Lake City	85,532	85,532	0	79.9%	79.9%	0.0%
E. Ogden	17,139	17,139	0	80.8%	80.8%	0.0%
F. Provo	14,206	14,206	0	80.8%	80.8%	0.0%
G. Logan	6,106	6,106	0	84.3%	84.3%	0.0%
H. Bountiful	6,396	6,396	0	78.2%	78.2%	0.0%
I. Other Division B (2.5% COLA)	84,772	84,772	0	85.0%	85.0%	0.0%
J. Other Division B (4% COLA)	737	737	0	98.7%	98.7%	0.0%
V. Firefighters						
A. Division A	(6,447)	(6,447)	0	102.4%	102.4%	0.0%
B. Division B	(39,452)	(39,452)	0	103.5%	103.5%	0.0%
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	281,659	159	46.5%	46.5%	0.0%
IX. Tier II - Hybrid Plans						
A. Public Employees	85,223	86,933	1,710	90.3%	90.1%	-0.2%
B. Public Safety and Firefighter	16,804	16,804	0	87.2%	87.2%	0.0%
X. Grand Total	\$ 4,608,617	\$ 4,695,368	\$ 86,751	88.8%	88.6%	-0.2%

<sup>1</sup> Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2021 actuarial valuation.