

# URS Fiscal Analysis of 2022 1<sup>st</sup> Substitute H.B. 75

*This document has been prepared by the Utah Retirement Systems (URS).*

## Summary of Fiscal Impact

If enacted, H.B. 75, Retirement System Amendments, likely will not result in a material fiscal impact on URS:

Increase in unfunded actuarial accrued liability:	Increase in annual cost for all participating employers:	Increase in actuarially determined contribution rates:
None	None	None

## Proposed Legislative Provisions

This bill would enact provisions in Utah Code Section 49-11-626 that would allow but not require a public employees' association qualifying as a "withdrawing entity" to make and complete a certain election no later than July 1, 2024, for the withdrawal from URS participation for its employees. A withdrawing entity's election is between alternative withdrawal scenarios, sometimes called a "hard freeze" and "soft freeze." In addition, a withdrawing entity would be required to pay any reasonable actuarial and administrative costs that arise out of the election of nonparticipation. The legislation also requires a withdrawing entity and URS to enter into an agreement before a withdrawal may occur. This agreement shall cover the costs that arise out of the election of nonparticipation and arrangements for the payment of such costs.

## Discussion and Actuarial Analysis

Under a "soft freeze" election of nonparticipation, current members would continue to participate, earning additional service and benefits, but no future employees of the withdrawing entity would be allowed to join URS. Also, the withdrawing entity would continue to make contributions on the payroll of the covered members.

Under a "hard freeze" election of nonparticipation, the employees would be treated as though they had terminated employment for URS purposes. Eligibility for vesting or retirement benefits would only be based on their current service. Their benefits would be based on current service and their current final average salary. Neither the withdrawing entity nor its employees would make contributions to URS in the future. Employees of the withdrawing entity who are vested for a retirement benefit may receive their retirement benefit when they are eligible. Employees who are not vested in their retirement benefit will not receive a retirement benefit from URS, but may receive a refund of their employee contributions, if any.

Several public employees' associations are participating employers in the Public Employees' Retirement System (Tier I Contributory, Tier I Noncontributory, and Tier II Hybrid Plan). Each of these systems is a cost-sharing multiple-employer defined benefit plan. Under this type of plan the pension obligations of participating employers are pooled and the pension plan assets of the system can be used to pay the benefits of the retirees of any employer that participates in the plan. As a result, there is no separate trust established for each participating employer. All the employers share equally in the cost and risk by

contributing an actuarially determined contribution rate that is determined as a percentage of total payroll for all of covered employers.

The actuary believes the appropriate way to determine a shortfall liability associated with a withdrawing employer is to:

1. Determine the present value of future benefits associated with the benefits for the closed group of current members (active and inactive);
2. Subtract an allocated share of the market value of assets; and
3. Subtract the actuarial present value of future contributions, if any.

The net result represents the liability that would be left behind to be covered by the remaining participating employers of the system, unless the withdrawing employer is required to make up the shortfall.

This bill has a requirement for the withdrawing entity and URS to enter into an agreement relating to the costs of withdrawal as well as for the withdrawing entity to pay any reasonable actuarial and administrative costs that arise out of the election of nonparticipation. These provisions prevent the remaining participating employers of the systems from having to subsidize the cost of providing retirement benefits to the employees (and former employees) of the withdrawing entity through an increase to their contribution rates. This funding mechanism will cover the costs relating to the withdrawal without an increase in annual cost for all participating employers or an increase in actuarially determined contribution rates. Accordingly, this bill is not expected to have a material fiscal impact on the retirement systems.

Implementation of the bill is not expected to affect administrative costs, but if any such costs are incurred, they will be covered in the agreement or handled within existing budgets. Accordingly, this bill is not expected to result in direct, measurable costs for URS.

While the aggregate fiscal impact of this bill will not be material to URS, the systems in which a withdrawing entity participates, and to the other participating employers in those systems, the potential impact to the withdrawing entity and its employees should not be overlooked. Although not yet actuarially calculated, the shortfall analysis and resulting payment due to URS could be significant and will depend on whether a "soft freeze" or "hard freeze" alternative is elected. When calculated, this time-sensitive shortfall analysis will be based on employer-specific information, the most recent actuarial valuation, overall market funded ratio, and the ratio of the market value of assets to the actuarial accrued liability. It is also important to note that the shortfall payment in the "soft freeze" alternative is in addition to continued employer contributions for participating employees.

Under either election, future employees of the withdrawing entity will not participate with URS for retirement benefits. Should a participating employer withdraw under a "hard freeze" alternative, many current active members will lose continued retirement benefits with URS. The effect will be greater for employees who are close to but not yet eligible for an unreduced retirement allowance.

It should be noted that URS is neither for nor against the proposed policy changes for public employees' associations participation with URS. Our goal is to inform the stakeholders of the potential impacts of these changes.