

URS Fiscal Analysis of 2023 1st Substitute H.B. 104, "Modifications to Public Safety Retirement"

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, 2023 1st Substitute H.B. 104, Modifications to Public Safety Retirement, has the following fiscal impact on URS, affected participating employers, and Public Safety and Firefighter Tier 2 members:

Affected Systems/ Employee Groups (Gray= system not affected; Hash= some members of system are eligible)	Fiscal Impact: Increase in unfunded actuarial accrued liability (UAAL)	Fiscal Impact: Increase in actuarially determined contribution rates	Fiscal Impact: Annual cost for Fiscal Year 2023-2024
Tier 1 & Tier 2 Public Safety (PS) & Firefighter (FF) Systems <p>T1 and T2 PS & FF Systems' Actuarial Accrued Liability = \$6.57 Billion</p>	\$45.89 Million Tier 1 PS & FF Systems: Range from -0.1% to -0.6%. Tier 2 PS & FF Hybrid System: -6.7%	Tier 1 PS System Funds: Increases ranging from 0.89% to 1.34% (only for six fiscal years) Tier 1 FF System Funds: Increases ranging from .79% to 1.20% (only for six fiscal years) Tier 2 PS & FF Hybrid System: Member contribution rate increase of 4.73% (from 2.59% to 7.32%)	Increase of \$23.47 Million for all Systems: \$8.07 Million for Tier 1 PS & FF Funds (only for four fiscal years) \$15.40 Million for the Tier 2 PS & FF Hybrid System. Note: Due to increasing Tier 2 covered payroll, the dollar cost will increase (e.g. \$29 Million in 2032; \$48 Million in 2042)

Proposed Legislative Provisions

This legislation has two separate benefit changes, meaning each provision impacts completely different systems and membership groups, effective beginning on January 1, 2024:

A. New Exception to the Postretirement Reemployment Restrictions

This bill amends Utah Code Title 49, Chapter 11, Part 12, the Postretirement Reemployment Restrictions Act. This new exception would provide a 66-month window (January 1, 2024, to June 30, 2029) where the required separation period for public safety and firefighter retirees would be reduced from one year to 183 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.

B. Benefit Enhancements for Tier 2 Public Safety and Firefighter Retirement

The other portion of proposed legislation enhances the benefits provided to the Tier 2 Public Safety and Firefighter Hybrid System members:

1. Benefit multiplier increase from 2.00% to 2.27% for service earned after January 1, 2024; and
2. Retirement eligibility will be reduced from 25 years to 22 years.

Discussion and Actuarial Analysis

The fiscal impact for this bill is provided in the attached exhibits. Specifically, the Exhibit 1 provides the impact on the actuarially determined contribution rates and the expected annual cost increase in the dollar amount of the contribution for fiscal year 2023-2024 for all funds.

As with all legislation impacting the Tier 2 Hybrid Systems, the dollar cost of a benefit enhancement can rapidly increase in future years even though there are no future additional increases in the contribution rate. This is because the covered payroll of the Tier 2 systems will increase at 8% to 12% per year as all new URS members will earn benefits in the Tier 2 Systems. Exhibit 2 shows a 20-year projection of the expected increase in the dollar contributions for the Tier 2 Public Safety and Firefighter Hybrid System.

Exhibit 3 provides the total impact on the unfunded actuarial accrued liability (UAAL) and funded ratio.

A. New Exception to the Postretirement Reemployment Restrictions

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 the working retiree provision of this proposed bill is the June 30, 2029 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 six fiscal years beginning July 1, 2023, and ending June 30, 2029 (the sunset date of this provision).

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, 2027, sunset date.

B. Benefit Enhancements for Tier 2 Public Safety and Firefighter Retirement

The other portion of proposed legislation impacts the benefits provided to the Tier 2 Public Safety and Firefighter Hybrid System members.

With the Legislature's changes to the Tier 2 Public Safety and Firefighter System that went into effect on July 1, 2020 (mainly the increase in the retirement formula multiplier from 1.5% to 2.0%), any required contributions above the employers' cap of 14.00% of pay must be paid as required employee contributions in that contributory system. Accordingly, if this bill is enacted, the Tier 2 Public Safety and Firefighter employers' total contribution will remain unchanged at 14.00% of pay and all the Tier 2 Public Safety and Firefighter members in the hybrid plan will be financing the benefit changes in this bill. This would result in a required member contribution rate increase of 4.73% (from 2.59% to 7.32%). 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.

The actuary notes that the calculated contribution rate is above the 14.00% of covered payroll employer rate so that the hybrid members no longer receive a defined contribution benefit, except as the members make elective contributions. 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 further increase the cost of the defined benefit portion of the hybrid plan. If there is a secondary objective to keep the cost of the defined benefit plan below or closer to the employer contribution rate, then the actuary points out that legislators could adopt a higher employer contribution requirement (higher than the current 14.00% of covered payroll employer contribution rate).

As we have noted with prior legislation impacting the Tier 2 Hybrid Systems, the dollar cost of a benefit enhancement can rapidly increase in future years even though there are no future additional increases in the contribution rate. This is because the covered payroll of the Tier 2 systems is increasing at 8% to 12% per year as all new URS members will earn benefits in the Tier 2 Systems. Therefore, this analysis includes Exhibit 2 to show a 20-year projection of the expected increase in the dollar contributions for the Tier 2 Public Safety and Firefighter Hybrid System.

For the Tier 2 enhancements, there is a sunset on the enhancements on July 1, 2029, with some “grandfathering.” To prevent underfunding retirement costs, the Board’s funding policy requires that the employer contribution rate be at least equal to the sum of the employer normal cost rate (which pays the current year’s cost). Under this policy, the objective of maintaining a relatively level contribution rate over time is achieved in normal conditions such as consistent financial markets. If the Tier 2 benefit enhancements sunset, the contribution rates will be decreased accordingly at the time. If contribution rate increases are deferred into the future, this would be fiscally unsound and unreasonable and could accrue a significant unfunded actuarial accrued liability (UAAL). In the future this would require significant contribution rate increases that would include an amortization rate which results in the amortization of the UAAL over 20 years in installments that increase at the assumed rate of growth in payroll for URS.

1. Tier 2 Benefit multiplier increase

The proposed legislation provides an increase to the benefit multiplier for members of the Tier 2 Public Safety and Firefighter Hybrid System from 2.00% to 2.27% for service earned after January 1, 2024. In 2019 S.B. 129, the Legislature previously increased this multiplier from 1.5% to 2.0% for service earned on and after July 1, 2020. As expected, the retirement benefit costs increase because the multiplier is increasing going forward.

2. Reduction in years required for Tier 2 Public Safety and Firefighter Retirement

The proposed legislation would also allow Tier 2 public safety and firefighters to retire with an unreduced benefit after attaining 22 years of service instead of the currently required 25 years.

It is more expensive to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age, which this change would drop the required years of service by 5 years from 25 years to 20 years. Because this change only affects Tier 2 Public Safety and Firefighter members, Tier 1 Public Safety and Tier 1 Firefighter retirement systems do not have cost impacts from this benefit change.

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, the Tier 2 years required to retire, 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.

This information and projected costs are based on the January 1, 2022 actuarial valuation and do not reflect any of the change in economic conditions that have occurred after that valuation date. Also, there will be an experience study conducted next year that will include a review of all the demographic and economic assumptions used in the actuarial valuation. As a result, there could be increases in the future contribution requirements because of that analysis.

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 HB104 1stSub

The Proposed Legislation has Two Significant Provisions (A. and B.)

**A. 183-Day Separation Period for Reemployed Retired Public Safety Members and Firefighters
for the Period Beginning January 1, 2024 and Ending June 30, 2029**

**B. Retirement Eligibility Reduced to 22 Years and the Benefit Multiplier is Increased to 2.27%
for Service after January 1, 2024 in the Tier 2 Public Safety and Firefighter Hybrid System
for Members hired before July 1, 2029**

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

Fund/Division (1)	Actuarially Determined Contribution Rates ²			Annual Cost ¹ for FY 2023/2024		
	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Increase
	(2)	(3)	(4)	(5)	(6)	(7)
I. Public Employees Contributory						
A. Local Government	8.86%	8.86%	0.00%	\$ 1,296	\$ 1,296	\$ 0
B. State and School	12.62%	12.62%	0.00%	1,321	1,321	0
C. Higher Education	9.47%	9.47%	0.00%	346	346	0
II. Public Employees Noncontributory						
A. Local Government	12.87%	12.87%	0.00%	106,173	106,173	0
B. State and School	17.11%	17.11%	0.00%	476,439	476,439	0
C. Higher Education	13.96%	13.96%	0.00%	28,211	28,211	0
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	16.81%	18.07%	1.26%	399	441	42
B. Other Division A (4% COLA)	16.82%	17.98%	1.16%	21	24	3
C. Other Division B (4% COLA)	9.26%	10.15%	0.89%	5	7	2
IV. Public Safety Noncontributory						
A. State	29.16%	30.46%	1.30%	29,778	31,633	1,855
B. Other Division A (2.5% COLA)	28.14%	29.38%	1.24%	30,959	32,995	2,036
C. Other Division A (4% COLA)	28.40%	29.71%	1.31%	8,100	8,663	563
D. Salt Lake City	36.51%	37.79%	1.28%	11,167	11,637	470
E. Ogden	37.05%	38.21%	1.16%	1,842	1,919	77
F. Provo	34.69%	35.96%	1.27%	1,699	1,781	82
G. Logan	32.39%	33.73%	1.34%	733	776	43
H. Bountiful	36.52%	37.52%	1.00%	738	762	24
I. Other Division B (2.5% COLA)	28.90%	30.08%	1.18%	17,229	18,173	944
J. Other Division B (4% COLA)	19.17%	20.34%	1.17%	635	715	80
V. Firefighters ³						
A. Division A	7.27%	8.06%	0.79%	2,391	2,859	468
B. Division B	-0.12%	1.08%	1.20%	(97)	1,282	1,379
VI. Judges ³	44.91%	44.91%	0.00%	9,939	9,939	0
VII. Tier II - Hybrid Plans ⁴						
A. Public Employees	9.74%	9.74%	0.00%	272,474	272,474	0
B. Public Safety and Firefighter	16.26%	20.99%	4.73%	52,929	68,326	15,397
VIII. Grand Total				\$ 1,054,727	\$ 1,078,192	\$ 23,465

Increase in contribution rates effective July 1, 2023 and ending June 30, 2029.

¹ Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2022 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.

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.

To model the fiscal cost of the 183-day reemployment window for qualified retirees, we have assumed that retirement rates will be +4% and +1.3% at each age prior to age 60 for public safety and firefighters, respectively.

Proposed Legislation HB104 1stSub

**Exhibit 2. Projected Dollar Cost Impact of the Proposed Legislation on the
Tier 2 Public Safety and Firefighter Hybrid Retirement System
(\$ in thousands)**

Calendar Year	Projected Payroll (Hybrid Plan)	Current Plan Cost			Proposed Plan Cost			Contribution Increase (8) - (5)
		Employer 14.00%	Member 2.59%	Total Plan 16.59%	Employer 14.00%	Member 7.32%	Total Plan 21.32% ¹	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2022	\$ 257,469	\$ 36,046	\$ 6,668	\$ 42,714	\$ 36,046	\$ 6,668	\$ 42,714	\$ -
2023	279,723	39,161	7,245	46,406	39,161	13,860 ¹	53,021	6,615 ²
2024	310,510	43,471	8,042	51,513	43,471	22,729	66,200	14,687
2025	342,957	48,014	8,883	56,897	48,014	25,104	73,118	16,221
2026	377,282	52,819	9,772	62,591	52,819	27,617	80,436	17,845
2027	413,726	57,922	10,716	68,638	57,922	30,285	88,207	19,569
2028	452,055	63,288	11,708	74,996	63,288	33,090	96,378	21,382
2029	492,332	68,926	12,751	81,677	68,926	36,039	104,965	23,288
2030	533,518	74,693	13,818	88,511	74,693	39,054	113,747	25,236
2031	575,757	80,606	14,912	95,518	80,606	42,145	122,751	27,233
2032	619,038	86,665	16,033	102,698	86,665	45,314	131,979	29,281
2033	662,298	92,722	17,154	109,876	92,722	48,480	141,202	31,326
2034	705,636	98,789	18,276	117,065	98,789	51,653	150,442	33,377
2035	748,960	104,854	19,398	124,252	104,854	54,824	159,678	35,426
2036	792,537	110,955	20,527	131,482	110,955	58,014	168,969	37,487
2037	835,732	117,002	21,645	138,647	117,002	61,176	178,178	39,531
2038	877,542	122,856	22,728	145,584	122,856	64,236	187,092	41,508
2039	918,100	128,534	23,779	152,313	128,534	67,205	195,739	43,426
2040	957,365	134,031	24,796	158,827	134,031	70,079	204,110	45,283
2041	996,018	139,443	25,797	165,240	139,443	72,909	212,352	47,112
2042	1,033,649	144,711	26,772	171,483	144,711	75,663	220,374	48,891

¹ In accordance with Utah Statute 49-11-301(6), the final contribution rate shall be the sum of the preliminary certified contribution rate plus the actuarially determined cost from any amendment. As a result, the 21.32% contribution rate beginning FY 2024 is equal to the 16.59% preliminary certified contribution rate plus the 4.73% actuarial cost of the plan amendment.

² Projected cost for calendar year 2023 reflects a 2.59% member contribution rate from January 1, 2023 to June 30, 2023 and a 7.32% from July 1, 2023 to December 31, 2023.

Projection based on the January 1, 2022 actuarial valuation.

Proposed Legislation HB104 1stSub

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**B. Retirement Eligibility Reduced to 22 Years and the Benefit Multiplier is Increased to 2.27%
for Service after January 1, 2024 in the Tier 2 Public Safety and Firefighter Hybrid System
for Members hired before July 1, 2029**

**Exhibit 3. 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 ¹			Funded Ratio ¹		
	Current (2)	Proposed Legislation (3)	Increase (4)	Current (5)	Proposed Legislation (6)	Decrease (7)
I. Public Employees Contributory						
A. Local Government	\$ 8,911	\$ 8,911	0	98.0%	98.0%	0.0%
B. State and School	11,703	11,703	0	98.2%	98.2%	0.0%
C. Higher Education	1,545	1,545	0	99.0%	99.0%	0.0%
II. Public Employees Noncontributory						
A. Local Government	229,167	229,167	0	96.6%	96.6%	0.0%
B. State and School	2,005,216	2,005,216	0	91.9%	91.9%	0.0%
C. Higher Education	27,988	27,988	0	98.7%	98.7%	0.0%
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	2,210	2,395	185	98.1%	97.9%	-0.2%
B. Other Division A (4% COLA)	150	163	13	99.3%	99.2%	-0.1%
C. Other Division B (4% COLA)	(70)	(62)	8	100.8%	100.7%	-0.1%
IV. Public Safety Noncontributory						
A. State	100,214	108,388	8,174	93.8%	93.3%	-0.5%
B. Other Division A (2.5% COLA)	105,626	114,545	8,919	92.4%	91.8%	-0.6%
C. Other Division A (4% COLA)	28,805	31,303	2,498	93.2%	92.7%	-0.5%
D. Salt Lake City	67,551	69,555	2,004	84.6%	84.2%	-0.4%
E. Ogden	13,608	13,945	337	85.2%	84.9%	-0.3%
F. Provo	10,246	10,605	359	86.2%	85.8%	-0.4%
G. Logan	3,883	4,080	197	90.2%	89.8%	-0.4%
H. Bountiful	4,467	4,568	101	84.9%	84.6%	-0.3%
I. Other Division B (2.5% COLA)	58,116	62,073	3,957	90.9%	90.4%	-0.5%
J. Other Division B (4% COLA)	(2,941)	(2,607)	334	104.8%	104.3%	-0.5%
V. Firefighters						
A. Division A	(20,398)	(19,270)	1,128	107.0%	106.6%	-0.4%
B. Division B	(111,850)	(107,501)	4,349	109.5%	109.1%	-0.4%
VI. Judges	37,371	37,371	0	87.1%	87.1%	0.0%
VII. Governors and Legislative	1,380	1,380	0	89.6%	89.6%	0.0%
VIII. 3% Substantial Substitute	267,908	267,960	52	48.5%	48.5%	0.0%
IX. Tier II - Hybrid Plans						
A. Public Employees	80,489	80,489	0	92.9%	92.9%	0.0%
B. Public Safety and Firefighter	8,339	21,616	13,277	95.3%	88.6%	-6.7%
X. Grand Total	\$ 2,939,634	\$ 2,985,526	\$ 45,892	93.2%	93.1%	-0.1%

¹ Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2022 actuarial valuation.

To model the fiscal cost of the 183-day reemployment window for qualified retirees, we have assumed that retirement rates will be +4% and +1.3% at each age prior to age 60 for public safety and firefighters, respectively.