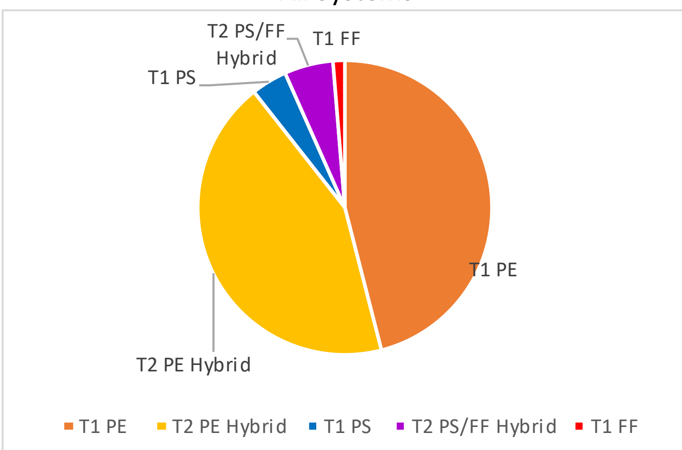
URS Fiscal Analysis of HB 251, "Postretirement Reemployment Restrictions Amendments"

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, HB 251, "Postretirement Reemployment Restrictions Amendments," has the following fiscal impact on URS, affected participating employers, and members:

Affected Systems/ Employee Groups	**Fiscal Impact:** **Increase in unfunded actuarial accrued liability (UAAL)** **Change in funded status**	**Fiscal Impact:** **Increase in actuarially determined contribution rates**	**Fiscal Impact:** **Annual cost for Fiscal Year 2024-2025**
All Systems  All Systems - Actuarial Accrued Liability: $44.8 Billion	No long-term net UAAL increase. The UAAL will first see an increase of $196.6 Million, but this will be offset over time by the employer contribution increases of paying the normal cost for retirees, reductions in the member's retirement allowance, and COLA suspension during the period of reemployment. No net change to funded ratio.	No increase in contribution rates. The combination of employer and employee "user fee" offsets finance this benefit change rather than contribution rate increases. Without the "user fees," contribution rate increases would have ranged between 0.02% and 2.05% for the systems.	No general additional ongoing costs for all participating employers and members. During the period of reemployment for those using the new option, employers will pay the normal cost for reemployed retirees and working retirees will have a reduced retirement allowance and COLA suspension.

Proposed Legislative Provisions

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.

Under the proposed bill, the current postretirement reemployment rules and exceptions are retained and a new optional exception to the one-year separation period is authorized. Under the new option, a retiree of the Public Employees' retirement systems may seek reemployment after retirement after a 90-day separation of service and a retiree of the Public Safety and Firefighter retirement systems may seek reemployment after retirement after a 60-day separation of service with the following additional conditions to those using the new reemployment option, acting as an employer and employee "user fee" during the working retiree period:

1) The employer must contribute the normal cost, plus the amortization rate (i.e. total certified contribution rate) on the payroll of the reemployed retirees;
2) Retirees of a Public Employee System will experience a 20% reduction in their retirement allowance during reemployment. Retirees of a Public Safety or Firefighter System will experience a 15% reduction in their retirement allowance during reemployment.
3) Retirees will not be eligible to receive an annual COLA during the reemployment period.

Discussion and Actuarial Analysis

The fiscal impact provided in the attached exhibits provides more details regarding the benefit changes in this legislation.

As the exhibits show, the consulting actuary has determined that the proposed legislation will not have a measurable impact on the systems, meaning the increase in the liability due to an increase in the number of members retiring at an earlier age will be offset by: (1) the increase in the employer contributions during reemployment and (2) the reductions in the retirees benefit during reemployment and the COLA suspension during reemployment.

Note, the systems will first experience an increase in the actuarial accrued liability and the unfunded liability due to a change in retirement behavior (i.e. the member retiring early with intention of seeking reemployment). However, the combination of the employers increasing the contribution effort from the amortization rate to the total certified contribution rate (i.e. the addition of the normal cost) and the reductions in the member's retirement and COLA suspension during reemployment will result in gains during the period of reemployment that is expected to effectively offset the initial liability loss.

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.

This bill does not change the current provisions of allowing individuals to return to work after a one-year separation. The actuary's work on this legislation was performed on a bill version in which the one-year required separation was replaced with the new "user fee" exception authorized in this bill. Keeping both options may reduce the number of employers and employees who elect to use the "user fee" option. Because the new option is intended to be self-funding with the "user fees," net liability and contribution rates are not expected to be materially impacted. However, if fewer members use the new option, the estimates about increase in unfunded actuarial accrued liability and annual costs (not net costs) will be reduced as systems' actual experience is analyzed in the future.

The effective date of this bill allows appropriate time for URS system administrative changes to be implemented.

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 administrative costs, but these are not readily direct, measurable costs for URS.

Utah Retirement Systems

HB 251 - Postretirement Reemployment Restrictions Amendments

Change in Reemployment after Retirement Provisions Effective July 1, 2025

(1) 90-Day Wait Period for public employee reemployed retirees and 60-Day Wait Period for public safety and firefighter reemployed retirees, (2) Employer contributes the normal cost and amortization rate (i.e. total contribution rate) (3) Retirement allowance is reduce 20% for public employees and 15% for public safety and firefighters during their reemployment period (4) Retiree does not receive the annual cost-of-living adjustment during the reemployment period

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

	Actuarially Determined Contribution Rates[2]						Annual Cost[1] for FY 2024/2025 Based on Actuarially Determined Rates		
Fund/Division	Current	Change in Reemployment Wait Period	Increase Before Offsets	Offset for Increased ER Contributions	Offset for Benefit Reductions	Net Effect (3) + (4) + (5) But not less than 0%	Current	Net Effect of Provision Change	Net Effect Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
I. Public Employees Contributory									
A. Local Government	10.19%	10.51%	0.32%	-0.13%	-0.23%	**0.00%**	$ 1,429	$ 1,429	0
B. State and School	13.51%	13.65%	0.14%	-0.06%	-0.10%	**0.00%**	1,033	1,033	0
C. Higher Education	9.94%	10.34%	0.40%	-0.16%	-0.28%	**0.00%**	327	327	0
II. Public Employees Noncontributory									
A. Local Government	14.20%	14.52%	0.32%	-0.13%	-0.23%	**0.00%**	124,842	124,842	0
B. State and School	18.00%	18.14%	0.14%	-0.06%	-0.10%	**0.00%**	511,702	511,702	0
C. Higher Education	14.43%	14.83%	0.40%	-0.16%	-0.28%	**0.00%**	28,980	28,980	0
III. Public Safety Contributory									
A. Other Division A (2.5% COLA)	19.87%	21.66%	1.79%	-0.84%	-1.08%	**0.00%**	495	495	0
IV. Public Safety Noncontributory									
A. State	33.28%	35.10%	1.82%	-0.86%	-1.10%	**0.00%**	38,368	38,368	0
B. Other Division A (2.5% COLA)	31.34%	33.08%	1.74%	-0.82%	-1.05%	**0.00%**	36,835	36,835	0
C. Other Division A (4% COLA)	31.87%	33.66%	1.79%	-0.84%	-1.08%	**0.00%**	10,106	10,106	0
D. Salt Lake City	38.05%	39.94%	1.89%	-0.89%	-1.15%	**0.00%**	12,103	12,103	0
E. Ogden	38.00%	39.66%	1.66%	-0.78%	-1.01%	**0.00%**	2,280	2,280	0
F. Provo	37.91%	39.79%	1.88%	-0.89%	-1.14%	**0.00%**	1,955	1,955	0
G. Logan	35.60%	37.63%	2.03%	-0.96%	-1.23%	**0.00%**	825	825	0
H. Bountiful	38.53%	40.13%	1.60%	-0.75%	-0.97%	**0.00%**	888	888	0
I. Other Division B (2.5% COLA)	32.57%	34.30%	1.73%	-0.82%	-1.05%	**0.00%**	22,412	22,412	0
J. Other Division B (4% COLA)	22.16%	24.41%	2.25%	-1.06%	-1.36%	**0.00%**	1,021	1,021	0
V. Firefighters[3]									
A. Division A	8.68%	10.30%	1.62%	-0.76%	-0.98%	**0.00%**	3,033	3,033	0
B. Division B	-1.70%	0.35%	2.05%	-0.97%	-1.24%	**0.00%**	(1,374)	(1,374)	0
VI. Judges[3]	45.10%	45.10%	0.00%	0.00%	0.00%	**0.00%**	10,462	10,462	0
VII. Tier II - Hybrid Plans[4]									
A. Public Employees	10.70%	10.72%	0.02%	-0.01%	-0.02%	**0.00%**	348,488	348,488	0
B. Public Safety and Firefighter	18.73%	19.35%	0.62%	-0.28%	-0.39%	**0.00%**	77,175	77,175	0
VIII. Grand Total							$ 1,233,385	$ 1,233,385	$ 0

[1] Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2023 actuarial valuation. The analysis is based on the increase in the actuarially identified 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 this fiscal cost, we have assumed that retirement rates will be +6% and +2% at each age prior to age 60 for public safety and firefighters, respectively. Similarly, the retirement rates will be +4% at each age prior to age 65 for state / local government employees.

The increase in the contribution rate due to retirement behavior is expected to by fully offset by the: (1) increased contributions, (2) benefit reduction, and (3) COLA suspension during reemployment.

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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)

		Unfunded Actuarial Accrued Liability[1]						Funded Ratio[1]		
	Fund/Division	Current	Change in Reemployment Wait Period	Increase Before Offsets	Offset for Increased ER Contributions	Offset for Benefit Reductions	Net Effect (4)+(5)+(6) But not less than $0	Current	Net Effect Proposed Legislation	Net Change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(5)	(6)	(7)
I.	Public Employees Contributory									
	A. Local Government	$ 10,602	$ 11,030	$ 428	$ (174)	$ (302)	$ 0	97.7%	97.7%	0.0%
	B. State and School	9,242	9,191	(51)	21	30	0	98.5%	98.5%	0.0%
	C. Higher Education	1,314	1,383	69	(28)	(49)	0	99.2%	99.2%	0.0%
II.	Public Employees Noncontributory									
	A. Local Government	365,527	408,398	42,871	(17,437)	(30,285)	0	94.9%	94.9%	0.0%
	B. State and School	2,155,101	2,208,835	53,734	(21,855)	(37,959)	0	91.7%	91.7%	0.0%
	C. Higher Education	18,666	26,490	7,824	(3,182)	(5,527)	0	99.2%	99.2%	0.0%
III.	Public Safety Contributory									
	A. Other Division A (2.5% COLA)	2,669	3,103	434	(205)	(263)	0	97.6%	97.6%	0.0%
IV.	Public Safety Noncontributory									
	A. State	149,389	170,096	20,707	(9,771)	(12,545)	0	91.5%	91.5%	0.0%
	B. Other Division A (2.5% COLA)	129,277	150,330	21,053	(9,934)	(12,755)	0	91.4%	91.4%	0.0%
	C. Other Division A (4% COLA)	38,629	44,652	6,023	(2,842)	(3,649)	0	92.0%	92.0%	0.0%
	D. Salt Lake City	68,446	73,496	5,050	(2,383)	(3,060)	0	85.2%	85.2%	0.0%
	E. Ogden	15,990	16,899	909	(429)	(551)	0	83.8%	83.8%	0.0%
	F. Provo	12,217	13,087	870	(411)	(527)	0	84.8%	84.8%	0.0%
	G. Logan	4,298	4,782	484	(228)	(293)	0	89.9%	89.9%	0.0%
	H. Bountiful	5,060	5,359	299	(141)	(181)	0	83.8%	83.8%	0.0%
	I. Other Division B (2.5% COLA)	83,280	93,485	10,205	(4,815)	(6,183)	0	88.3%	88.3%	0.0%
	J. Other Division B (4% COLA)	(3,123)	(2,351)	772	(364)	(468)	0	104.1%	104.1%	0.0%
V.	Firefighters									
	A. Division A	(17,215)	(13,269)	3,946	(1,862)	(2,391)	0	105.3%	105.3%	0.0%
	B. Division B	(136,468)	(123,536)	12,932	(6,102)	(7,835)	0	111.0%	111.0%	0.0%
VI.	Judges	39,777	39,777	0	0	0	0	87.0%	87.0%	0.0%
VII.	Governors and Legislative	938	938	0	0	0	0	92.9%	92.9%	0.0%
VIII.	Tier II - Hybrid Plans									
	A. Public Employees	161,496	163,563	2,067	(938)	(1,762)	0	89.3%	89.3%	0.0%
	B. Public Safety and Firefighter	32,868	38,822	5,954	(2,697)	(3,769)	0	87.6%	87.6%	0.0%
IX.	Grand Total	$ 3,147,980	$ 3,344,560	$ 196,580	$ (85,776)	$ (130,323)	$ 0	92.6%	92.6%	0.0%

[1] Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2023 actuarial valuation.

To model this fiscal cost, we have assumed that retirement rates will be +6% and +2% at each age prior to age 60 for public safety and firefighters, respectively. Similarly, the retirement rates will be +4% at each age prior to age 65 for state / local government employees.

The increase in the unfunded liability due to retirement behavior is expected to by fully offset by the: (1) increased contributions, (2) benefit reduction, and (3) COLA suspension during reemployment.