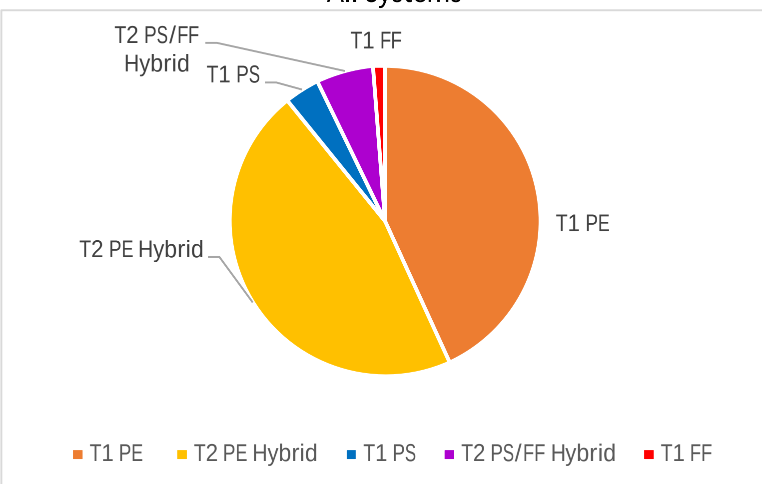
URS Fiscal Analysis of 2025 H.B. 267, "Public Sector Labor Union Amendments"

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

Summary of Fiscal Impact

If enacted, 2025 H.B. 267, "Public Sector Labor Union Amendments," likely will not result in a material fiscal impact on the Utah Retirement Systems (URS) generally, but will impact affected participating employers:

Affected Systems/ Employee Groups Those Systems' Actuarial Accrued Liability	**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 2025-2026**
All Systems  All Systems – Actuarial Accrued Liability: $47.7 Billion	No increase in UAAL No change to funded ratio	No increase in contribution rates.	No general additional ongoing costs for all participating employers and members.

Proposed Legislative Provisions
This bill enacts provisions in Utah Code Section 49-11-627 that would require a qualifying public employees' association to be a "withdrawing entity" and complete a withdrawal as a participating employer with URS election no later than July 1, 2027. A withdrawing entity's election must solely be under the withdrawal scenario that is sometimes called a "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.

This bill also amends the appointment process for certain members of the Utah State Retirement Board and the URS Membership Council.

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 only its covered employees/URS members.

The Public Employees' retirement systems (Tier 1 Contributory, Tier 1 Noncontributory, and Tier 2 Hybrid Plan) are cost-sharing multiple-employer defined benefit plans. 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.

URS' consulting actuary has recommended 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 net fiscal impact generally on the retirement systems.

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. 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. Each withdrawing entity must establish its own benefit plan(s) for such future employees, which will require some costs to establish and maintain as the sponsor.

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.

This bill does not alter benefit design or make substantive benefit modifications. Implementation of the bill is not expected to affect administrative costs, but if any such costs are incurred, they will be covered in the agreements or handled within existing budgets and will not result in direct, measurable costs for URS. Accordingly, this bill likely will not have a material fiscal impact on URS generally nor will it increase actuarially determined contribution rates.