

URS Fiscal Analysis of 2025 H.B. 417, "Public Safety 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, 2025 H.B. 417, "Public Safety Retirement Amendments," likely will result in a material fiscal impact on URS, affected participating employers, and members:

<u>Affected Systems/ Employee Groups</u> Those Systems' Actuarial Accrued Liability	<u>Fiscal Impact:</u> Increase in unfunded actuarial accrued liability (UAAL)	<u>Fiscal Impact:</u> Increase in actuarially determined contribution rates	<u>Fiscal Impact:</u> Annual cost for Fiscal Year 2025-2026
<div style="text-align: center;"> <p>All Systems</p> <p>Legend: T1 PE, T2 PE Hybrid, T1 PS, T2 PS/FF Hybrid, T1 FF</p> </div> <hr/> Tier 1 Public Safety Systems and Tier 2 PS & FF Hybrid System - Actuarial Accrued Liability: \$5.9 Billion	Increase in UAAL of \$7,860,000. Tier 1 PS Systems: Range from -0.10% to -0.20%. Tier 2 PS & FF Hybrid System: -0.20%	Tier 1 PS System Funds: Employer contribution rate increases ranging from 0.17% to 0.24% Tier 2 PS & FF Hybrid System: Member contribution rate increase of 0.06% (from 4.73% to 4.79%)	\$1,159,000 additional ongoing costs for Public Safety participating employers and Tier 2 Public Safety and Firefighter members.

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 may seek reemployment after retirement if the retiree:

1. Retires from any of the Tier 1 and Tier 2 Public Safety Retirement systems;
2. Has a bona fide termination of employment on the retiree's retirement date;
3. Has 30-day separation of service from any participating employer; and
4. Is reemployed to provide law enforcement services for a participating employer that is a local education agency.

A retiree reemployed under this new option will have the retirement allowance cancelled during subsequent reemployment within one year of the termination of reemployment with a local education agency.

Discussion and Actuarial Analysis

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

Specifically, 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 2025-2026 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 provides the total impact on the unfunded actuarial accrued liability (UAAL) and funded ratio.

The consulting actuary based the calculations and analysis on the member and financial data provided by URS and used to perform the actuarial valuation as of January 1, 2024. To model the fiscal impact the consulting actuary increased the retirement rates by 0.05% at each age below age 60 (age 62 for Tier 2), which increases the expected number of retirements by approximately five to seven per year. This adjustment is based on retirement behavior that the consulting actuary observed with another state retirement system that enacted a similar type of change in 2019/2020.

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>.

With the Legislature's changes to the Tier 2 Public Safety and Firefighter Hybrid 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 0.06% (from 4.73% to 4.79%). 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.

Finally, it should be noted that the 0.06% of pay increase in the contribution rate for the Tier 2 Public Safety and Firefighter Hybrid System will result in an increase in the member contribution rate for all members in that Hybrid system, which includes firefighters who will not benefit from the legislation if enacted.

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.

Proposed Legislation 2025 H.B. 417
Modification to the Postretirement Reemployment Provisions for Retirees
Reemployed as a School Resource Officer

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 2025/2026 Based on Actuarially Determined Rates		
	Current (2)	Proposed Legislation (3)	Increase (4)	Proposed		
				Current (5)	Legislation (6)	Increase (7)
I. Public Employees Contributory						
A. Local Government	9.97%	9.97%	0.00%	\$ 1,323	\$ 1,323	\$ 0
B. State and School	13.16%	13.16%	0.00%	955	955	0
C. Higher Education	5.34%	5.34%	0.00%	130	130	0
II. Public Employees Noncontributory						
A. Local Government	13.98%	13.98%	0.00%	127,406	127,406	0
B. State and School	17.65%	17.65%	0.00%	524,049	524,049	0
C. Higher Education	9.83%	9.83%	0.00%	19,576	19,576	0
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	19.34%	19.52%	0.18%	485	491	6
IV. Public Safety Noncontributory						
A. State	32.22%	32.40%	0.18%	39,882	40,129	247
B. Other Division A (2.5% COLA)	30.72%	30.89%	0.17%	37,150	37,390	240
C. Other Division A (4% COLA)	31.27%	31.44%	0.17%	9,726	9,788	62
D. Salt Lake City	36.49%	36.69%	0.20%	12,481	12,550	69
E. Ogden	36.04%	36.21%	0.17%	2,113	2,123	10
F. Provo	36.09%	36.28%	0.19%	1,955	1,966	11
G. Logan	33.14%	33.32%	0.18%	774	778	4
H. Bountiful	37.89%	38.06%	0.17%	741	745	4
I. Other Division B (2.5% COLA)	31.93%	32.10%	0.17%	22,281	22,399	118
J. Other Division B (4% COLA)	19.98%	20.22%	0.24%	968	979	11
V. Firefighters ³						
A. Division A	9.02%	9.02%	0.00%	3,410	3,410	0
B. Division B	-3.59%	-3.59%	0.00%	(2,921)	(2,921)	0
VI. Judges ³	44.56%	44.56%	0.00%	11,367	11,367	0
VII. Tier II - Hybrid Plans ⁴						
A. Public Employees	10.81%	10.81%	0.00%	413,260	413,260	0
B. Public Safety and Firefighter	18.64%	18.70%	0.06%	94,881	95,258	377
VIII. Grand Total				\$ 1,321,992	\$ 1,323,151	\$ 1,159

¹ Change in actuarial determined contributions and projected FY annual cost based on the January 1, 2024 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.

Proposed Legislation 2025 H.B. 417
Modification to the Postretirement Reemployment Provisions for Retirees
Reemployed as a School Resource Officer

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	Unfunded Actuarial Accrued Liability ¹			Funded Ratio ¹		
	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Decrease
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. Public Employees Contributory						
A. Local Government	\$ 10,089	\$ 10,089	\$ 0	97.8%	97.8%	0.0%
B. State and School	8,661	8,661	0	98.6%	98.6%	0.0%
C. Higher Education	(244)	(244)	0	100.2%	100.2%	0.0%
II. Public Employees Noncontributory						
A. Local Government	360,343	360,343	0	95.3%	95.3%	0.0%
B. State and School	2,161,028	2,161,028	0	92.1%	92.1%	0.0%
C. Higher Education	(70,549)	(70,549)	0	103.0%	103.0%	0.0%
III. Public Safety Contributory						
A. Other Division A (2.5% COLA)	2,573	2,617	44	97.7%	97.7%	0.0%
IV. Public Safety Noncontributory						
A. State	146,773	149,054	2,281	92.1%	92.0%	-0.1%
B. Other Division A (2.5% COLA)	125,352	127,556	2,204	92.2%	92.0%	-0.2%
C. Other Division A (4% COLA)	37,036	37,639	603	92.8%	92.7%	-0.1%
D. Salt Lake City	65,613	66,181	568	86.5%	86.4%	-0.1%
E. Ogden	13,726	13,818	92	86.5%	86.4%	-0.1%
F. Provo	11,402	11,499	97	86.5%	86.4%	-0.1%
G. Logan	3,489	3,535	46	92.0%	91.9%	-0.1%
H. Bountiful	4,538	4,566	28	86.0%	85.9%	-0.1%
I. Other Division B (2.5% COLA)	79,750	80,825	1,075	89.6%	89.4%	-0.2%
J. Other Division B (4% COLA)	(4,852)	(4,762)	90	106.1%	106.0%	-0.1%
V. Firefighters						
A. Division A	(16,984)	(16,984)	0	104.8%	104.8%	0.0%
B. Division B	(159,688)	(159,688)	0	112.3%	112.3%	0.0%
VI. Judges	44,514	44,514	0	86.4%	86.4%	0.0%
VII. Governors and Legislative	682	682	0	94.9%	94.9%	0.0%
VIII. 3% Substantial Substitute	262,745	262,745	0	48.7%	48.7%	0.0%
IX. Tier II - Hybrid Plans						
A. Public Employees	246,949	246,949	0	87.3%	87.3%	0.0%
B. Public Safety and Firefighter	42,450	43,182	732	88.0%	87.8%	-0.2%
X. Grand Total	\$ 3,375,396	\$ 3,383,256	\$ 7,860	93.1%	93.1%	0.0%

¹ Change in unfunded actuarial accrued liability and funded ratio based on the January 1, 2024 actuarial valuation.