

# Utah State Retirement Systems Overview

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## Part I: History, Composition, and Key Terms



*May 5, 2005*

**Prepared by the Office of Legislative Research and General Counsel**

# Utah State Retirement Systems

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## Core Questions



P What is the history of the retirement systems?

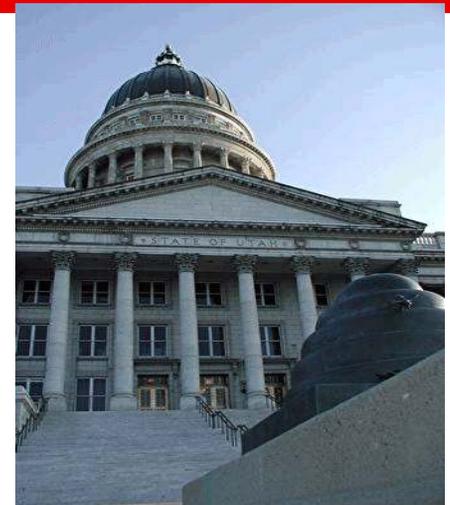
P Who participates in the various systems?

P What are the definitions of key retirement terms?

# Utah State Retirement Systems

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## History and Composition – Core Questions



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# Utah State Retirement Systems

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The current benefits for public employees as well as the differences among the various retirement systems are best understood with a recognition of the history of public retirement in Utah.

# Utah State Retirement Systems

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## Historical Overview

- P The struggles of employee associations, local governments, and the Legislature to provide employee retirement benefits at the local and state levels;
- P The establishment and expansion of the early pension plans;
- P The consolidation of retirement programs under one board and office in 1963;
- P The Legislature's structural changes and benefit enhancements to each of the systems administered by the board;
- P The stability of major retirement benefits since 1991;
- P The Legislature's issues of oversight and funding the contribution rate and rising health care costs.

# Utah State Retirement Systems

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## Historical Overview by Decade

### P 1900s – 1910s: [Foundation]

- ▶ The "Retirement of Public School Teachers" act was passed by the Utah Legislature, providing for the organization of teacher retirement associations (1907).
- ▶ Salt Lake City becomes the first city to establish a Teachers' Retirement System.
- ▶ The first statewide pension plan was enacted, covering all full-time paid firefighters and volunteer firefighters (1919).

### P 1920s: [Establishment Continues]

- ▶ City police pension plans were established for Salt Lake City, Ogden, Provo, and Logan, and the Prison and Industrial School Guards Retirement System was established to cover full-time employees of the prison.

**P 1930s:** [Expansion]

- ▶ Ogden and Provo establish teacher retirement systems.
- ▶ The first state retirement law was passed with the "Teachers' Retirement Act" and in 1937 the Teachers' Retirement System became effective, covering both teachers and administrators.

**P 1940s:** [Expansion]

- ▶ The Teachers' Retirement System was opened to full-time, non-teaching school employees, the "State Officers' and Employees' Retirement System of Utah" was created to cover state employees.
- ▶ Optional state coverage was established for judges and local government employees.

## **P 1950s: [Quiet Decade]**

- ▶ The State Employees Retirement System was repealed and Social Security coverage was extended.
- ▶ The Teachers Retirement System was terminated in favor of a new system integrated with Social Security benefits, and retirement systems were established for Highway Patrol and Judges.

## **P 1960s: [Key Decade of Reform]**

- ▶ Joint administration was established for public employees and teachers systems.
- ▶ The School Employees System, Public Employees System, Judges System, Public Safety System (including Highway Patrol), Prison Guards System, former Employee Retirement System, and Firefighters System were placed under a single board (1963).
- ▶ The Public employees and Teachers Employees systems were consolidated into the State Retirement System.

**P 1970s:** [Expansion Statewide, Oversight]

- ▶ Utah Firefighters System and Judges System were established, health and medical insurance transferred to the Retirement Office, and a Legislative subcommittee on Retirement was established.

**P 1980s:** [System Restructuring]

- ▶ Custody of the Retirement funds was transferred to the Retirement Board from the State Treasurer.
- ▶ The Retirement System was declared an independent agency.
- ▶ A 2.5% formula was implemented for Public Safety and Firefighters Systems.
- ▶ The Public Employees Noncontributory Retirement System was established.
- ▶ An Early Retirement Incentive bill was passed.
- ▶ The Retirement Board was restructured altering the board membership and establishing a membership council.
- ▶ The Public Safety Noncontributory System was established.

## P 1990s: [Benefit Equilibrium]

- ▶ A 2% formula for all active public employees was implemented, and a 5% formula for Judges (1990).
- ▶ Spouses' death benefits were expanded.
- ▶ A purchase of retirement credit option was created for the Public Employees' Noncontributory System.
- ▶ The Firefighter's COLA limit was increased from 2.5% to 4%.
- ▶ Several conversion windows were opened for both the Public Employees' Noncontributory Retirement System and the Public Safety Noncontributory Retirement System.
- ▶ The division of retirement and death benefits were clarified for divorced members, based on court domestic relations orders.
- ▶ Post-retirement employment, with restrictions, was authorized.
- ▶ The independent status of the Utah State Retirement Office and Board were clarified.
- ▶ A mandatory retirement age of 75 for judges was enacted.
- ▶ The Judges' Non-contributory Retirement System was created.

## **P 2000s:**

- ▶ Post-retirement employment provisions were further amended.
- ▶ The minimum monthly retirement allowance was increased and an additional retirement benefit was authorized for certain retired members of the Public Employees' and Public Employees' Noncontributory Retirement Systems.
- ▶ Recodification of the Utah State Retirement Act, now known as the Utah State Retirement and Insurance Benefit Act (2002).
- ▶ The name of the Legislative Quasi-Governmental Entities Committee was changed to the Retirement and Independent Entities Committee (2003).
- ▶ Purchase of retirement credit option expanded to the Contributory System (2004).
- ▶ Potential for contribution rate stability by authorizing the actuarial funded ratio of the retirement systems to reach and be maintained at 110% (2004).

## **P Future: ?????**

# Utah State Retirement Systems

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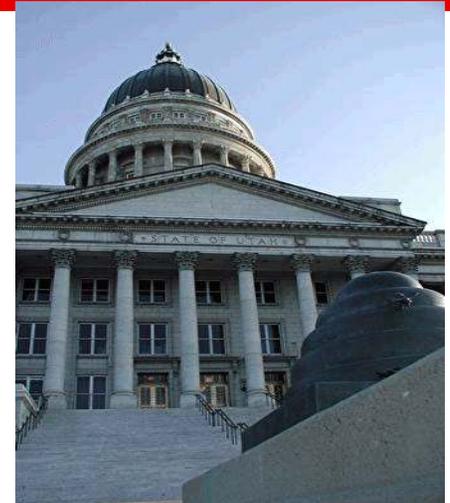
## Historical Overview-- Review

- P The struggles of employee associations, local governments, and the Legislature to provide employee retirement benefits at the local and state levels;
- P The establishment and expansion of the early pension plans;
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# Utah State Retirement Systems

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## Six Participant Systems

### Noncontributory



### Public Safety



### Judges



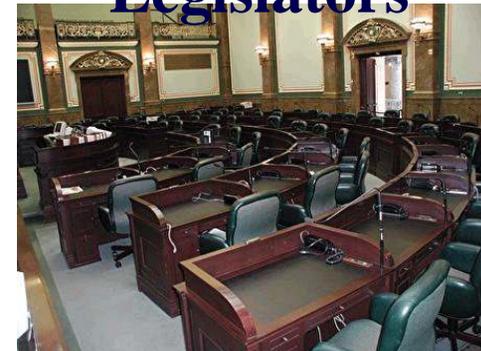
### Contributory



### Firefighters



### Governors & Legislators



# Utah State Retirement Systems

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## Eligible Employee Participants

### Public Safety



- Peace Officers
- Correctional Officers
- Approved Special Function Officers



# Utah State Retirement Systems

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## Eligible Employee Participants

### Firefighters



- Full-time Firefighters regularly assigned to a fire department**



# Utah State Retirement Systems

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## Eligible Employee Participants

### Judges



- Supreme Court Judges
- Appellate Court Judges
- District Court Judges
- Juvenile Court Judges



# Utah State Retirement Systems

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## Eligible Employee Participants

**Noncontributory**



**& Contributory**



- State**
- Public Education**
- Classified Education**
- Higher Education**
- Political Subdivisions**
- Other Governmental Agencies**



# Utah State Retirement Systems

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## Noncontributory Exclusions\*



- Elected officials**
- State department executive heads and other high-level appointed officials**
- Board & commission members**
- Local appointed officials without civil service protection**

\*May need to file a formal request for exclusion (Exclusion substitutes a defined contribution benefit for participation in the defined benefit plan)

# Utah State Retirement Systems

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## Eligible Employee Participants

**Governors &  
Legislators**



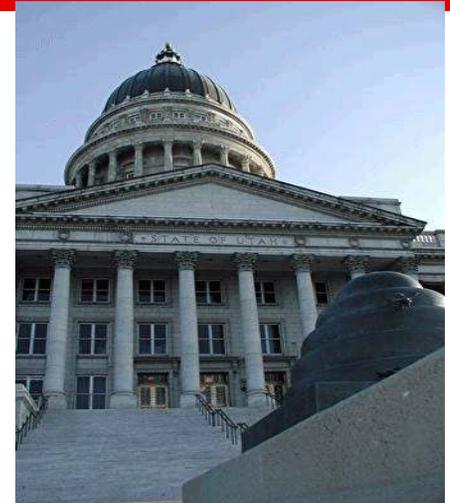
- Governors**
- Legislators with 4 or more years of service**



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## Definitions of Key Retirement Terms

### **P Qualified Plan:**

- ▶ A “qualified plan” is established by an employer to provide retirement benefits for employees and their beneficiaries.
- ▶ Qualified plans include defined benefit plans and defined contribution plans.
- ▶ Employees do not pay taxes on plan assets until the assets are distributed and earnings on qualified plans are tax-deferred.
- ▶ A qualified plan must operate in accordance with certain laws, including the Internal Revenue Code, in order to maintain its qualified status.

# Utah State Retirement Systems

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## Definitions of Key Retirement Terms

### P **Defined Benefit Plan: [DB]**

- ▶ A “defined benefit plan” provides an employee a specific monthly benefit at retirement based upon years of service, compensation, and age.
- ▶ Funded through employer contributions that, based on actuarial assumptions including projected growth of investments, are required to provide the predetermined retirement benefit. If the investment performance falls below the projected amount, the employer’s contribution rate is increased to cover the projected shortfall.

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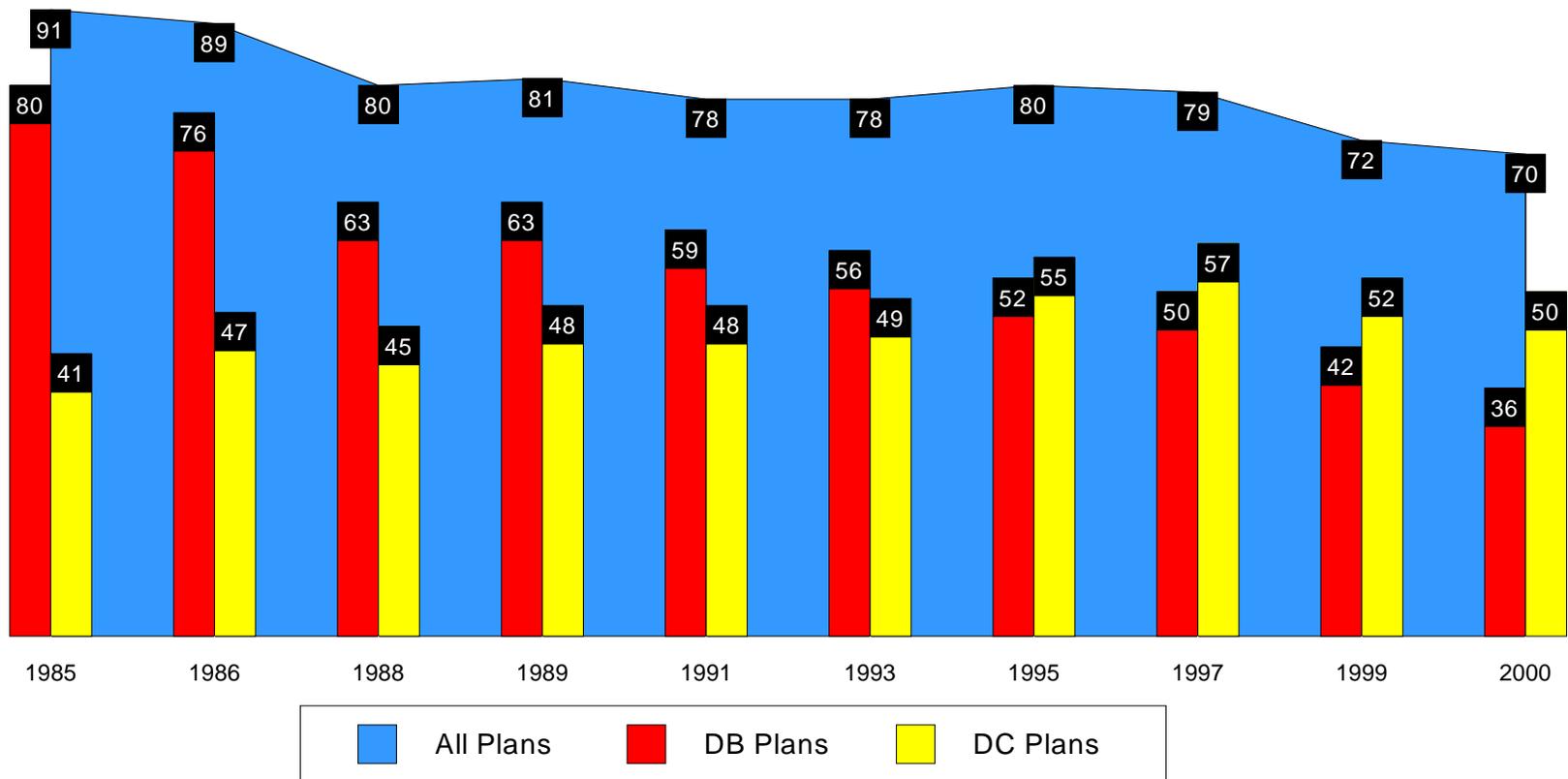
## Definitions of Key Retirement Terms

### **P Defined Contribution Plan: [DC]**

- ▶ A “defined contribution plan” provides an individual account for each employee, but does not promise a specific amount of benefit at retirement.
- ▶ Employees, employers, or both make pretax contributions to the employee’s account, subject to contribution caps.
- ▶ Benefits are based on the amount contributed and are also affected by investment choices, income, expenses, gains, and losses.
- ▶ Employers are not required to make up for any loss on investments.

# U.S. Defined Benefit & Defined Contribution Plan Participation

Percent of full-time employees of medium and large private employers participating in defined benefit and defined contribution retirement plans



Source: U.S. Department of Labor, Bureau of Labor Statistics