

Utah Retirement Systems Overview



October 17, 2012

Prepared by the Office of Legislative Research and General Counsel



Overview -- Retirement

Key Questions

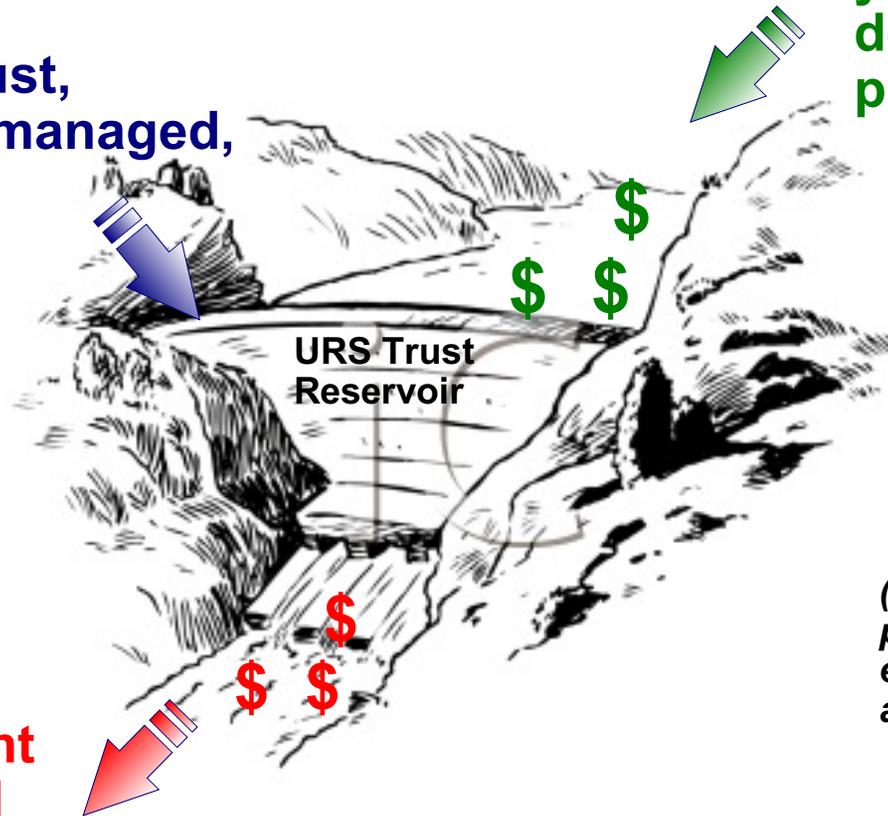
- **What is the Utah Retirement Systems (URS)?**
- **What were the 2010 Utah retirement reforms?**
- **What are the benefits? (*Formulas*)**
- **When can benefits be taken? (*Eligibility*)**
- **How is it funded? (*Revenues*)**
- **What is the Funding Status of the Retirement Systems? (*Funded Ratio*)**
- **What contributions are needed? (*Contribution Rates*)**

Utah Retirement Systems

Like a Reservoir of Shared \$ for Members

\$ are held in trust,
professionally managed,
and invested

During working
years, \$ are
deposited each
pay period



During retirement
years, \$ are paid
out monthly by
formula

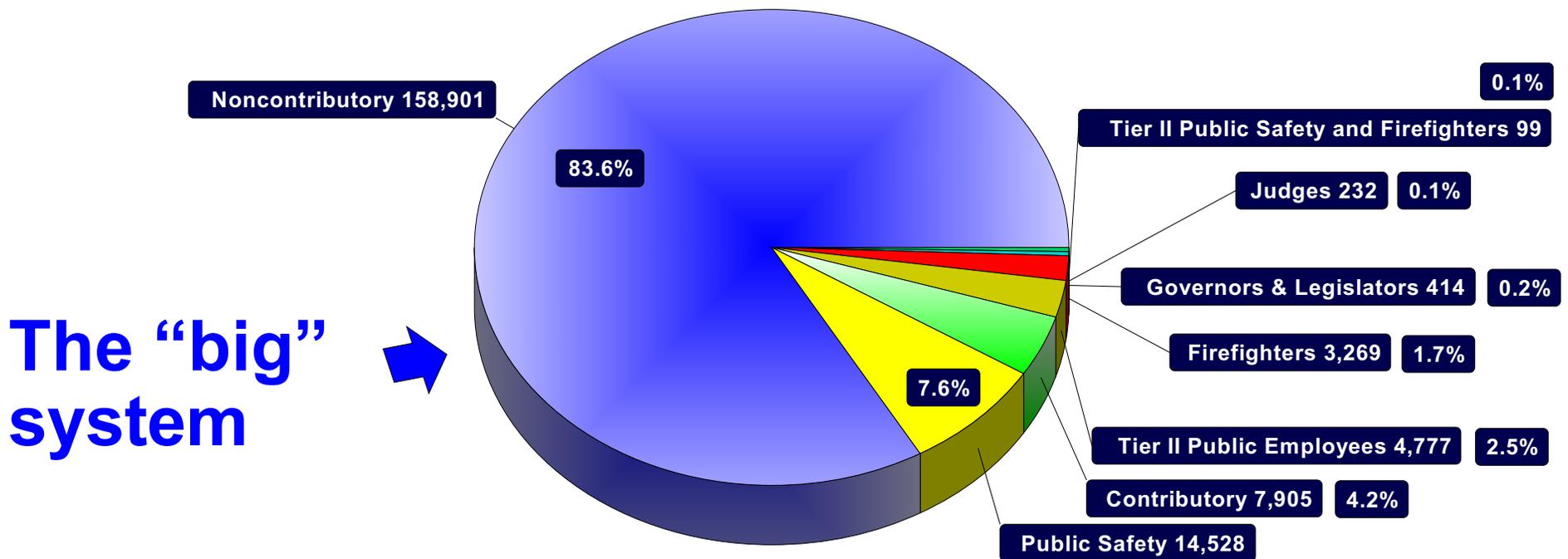
*(For defined contribution
plans, \$ are placed in an
employee's individual
account when deposited)*

URS -- Membership in Systems

Total System Membership

190,125

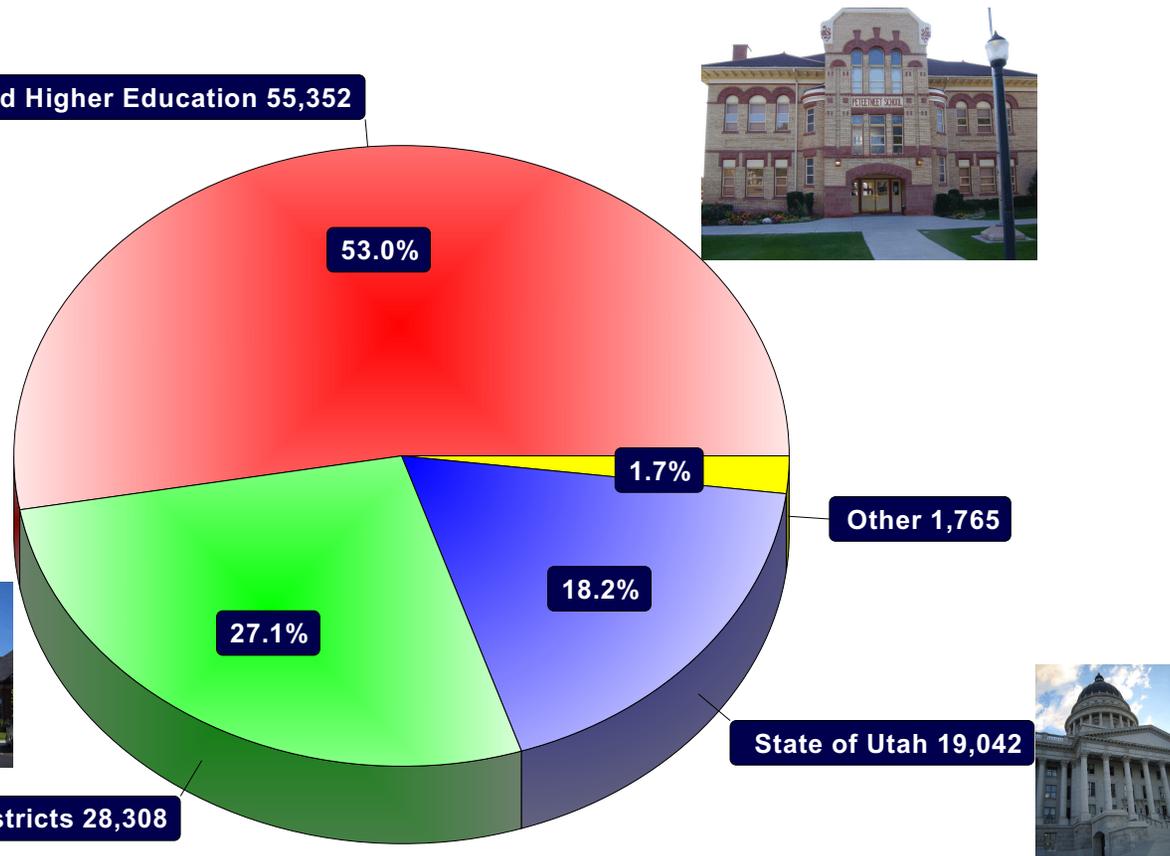
(As of December 31, 2011)



Source: Utah Retirement Systems Comprehensive Annual Financial Report;
for the year ending Dec. 31, 2011

URS -- Membership by Employer Type

Active Membership 104,691



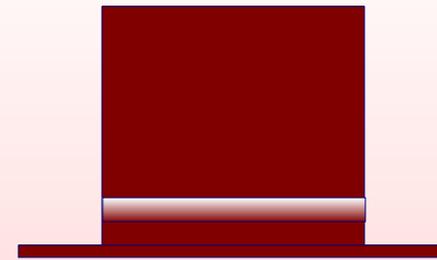
Source: Utah Retirement Systems, June 20, 2012, as of December 31, 2011

Role of the Utah State Legislature With Retirement Systems

Two Hats



- **Policymaker
for All
Retirement
Systems**

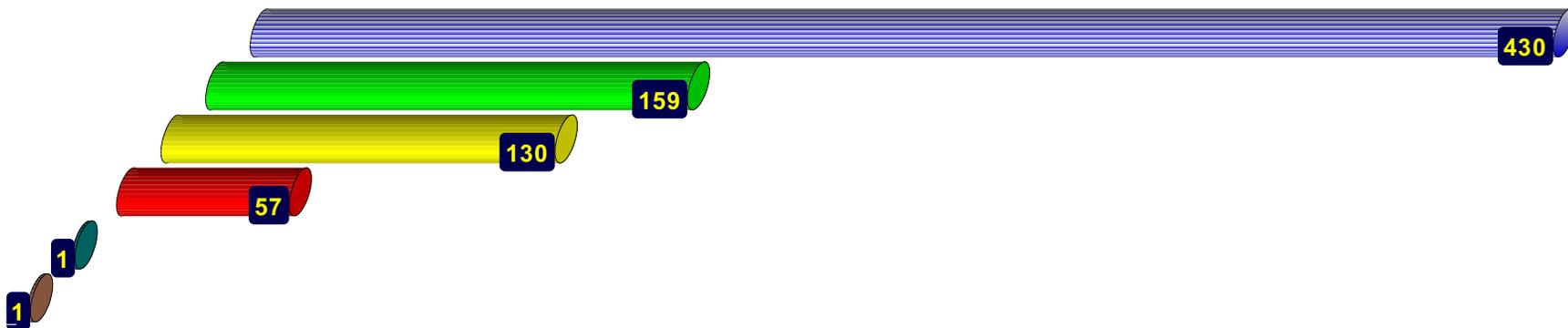
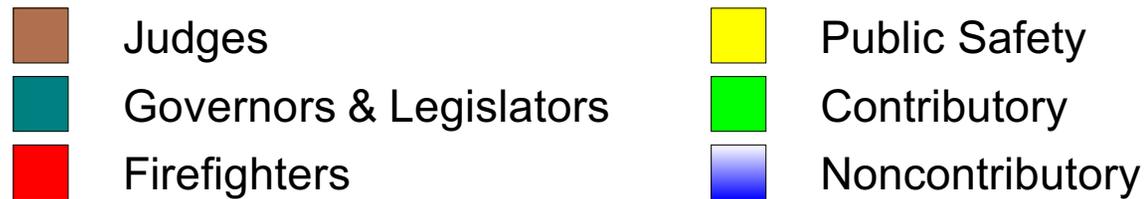


- **Employer:**
 - ▶ **State
employees**
 - ▶ **School
employees**

URS -- Participating Employers

Total Participating Employers 460

Retirement System Offered



Source: Utah Retirement Systems Comprehensive Annual Financial Report;
For the year ending Dec. 31, 2011

Retirement Definitions

Utah Code Section 49-11-102

- **"Actuarial interest rate"** means the interest rate as recommended by the actuary and adopted by the board upon which the funding of system costs and benefits are computed (*assumed rate of return*)(7.5% for FY 2013).
- **"Amortization rate"** means the board-certified percent of salary required to amortize the unfunded actuarial accrued liability in accordance with policies established by the board upon the advice of the actuary (e.g., 6.5% for FY 2013 for public employees noncontributory state and school).
- **"Certified contribution rate"** means the board-certified percent of salary paid on behalf of an active member to URS to maintain the system on a financially and actuarially sound basis (e.g. 18.76% for FY 2013 for public employees noncontributory state and school).
- **"Normal cost rate"**:
 - ▶ (a) means the percent of salary that is necessary for a retirement system that is fully funded to maintain its fully funded status; and
 - ▶ (b) is determined by the actuary based on the assumed rate of return established by the board.
- **"Unfunded actuarial accrued liability" or "UAAL"** :
 - ▶ (a) is determined by the system's actuary; and
 - ▶ (b) means the excess, if any, of the accrued liability of a retirement system over the actuarial value of its assets (*liability minus assets*)(*\$5.84 billion for all systems as of Dec. 31, 2011*).

2010 Utah Retirement Reforms -- Key Provisions*

Beginning July 1, 2010, for post-employment restrictions and July 1, 2011, for new-employee retirement systems

Provide stricter post-retirement reemployment restrictions

- ▶ **Prohibit collecting a retirement allowance while receiving any employer retirement contribution or earning additional service credit**
- ▶ **One-year employment separation requirement after retirement (certain exceptions may apply)**

No retirement benefit change for existing public employees

For new public employees:

- ▶ **Reduced retirement benefits**
- ▶ **Provide set employer contribution amounts (10% of salary for public employees and 12% of salary for public safety and firefighter employees)**

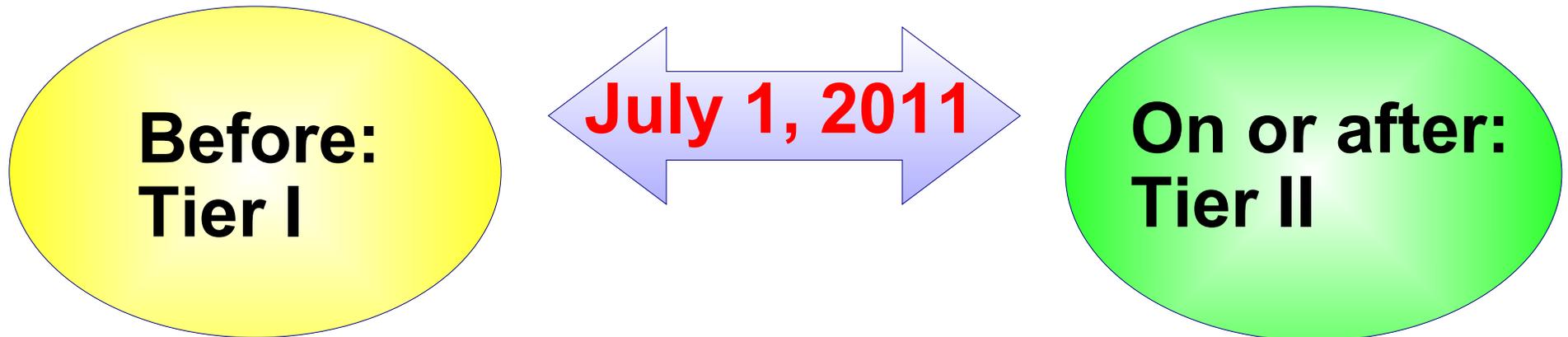
Use part of the savings to pay unfunded liability for the old retirement systems (Tier I amortization)

*S.B. 63 "New Public Employees' Tier II Contributory Retirement Act"
S.B. 43 "Post-Retirement Employment Amendments"
Both bills passed March 1, 2010 and became effective on July 1, 2010

2010 Utah Retirement Reforms -- Key Provisions

Tier I or Tier II – based on date of employment

Employees who initially enter regular full-time employment:



- Existing employees are grandfathered under existing (old) retirement systems and plans
- Judges were excluded from participation in Tier II systems or plans and remain in Tier I

- New employees may choose between:
 - the Tier II hybrid system; or
 - the Tier II Defined Contribution (DC) plan
- New governors, legislators, and other full-time elected officials are only eligible for the Tier II DC plan

2010 Utah Retirement Reforms -- Key Provisions

Beginning July 1, 2011

Four new Tier II systems were created with set employer contributions* as follows:

	Hybrid	Defined Contribution
Public Employees'	10%	10%
Public Safety and Firefighters'	12%	12%

*Contribution rates do not include the death benefit contribution or the Tier I amortization rate.

***Sample FY 2013 Employer Contribution Rates:**

16.65% for Tier II public employees' hybrid (state and school)

(16.65% = 10.00% + .15% death benefit + 6.5% Tier I amortization)

18.76% for Tier I public employees' noncontributory (state and school)

26.55% for Tier II public safety (state)

(26.55% = 12.00% + .19% death benefit + 14.36% Tier I amortization)

37.29% for Tier I public safety noncontributory (state)

URS -- Systems

Participant Systems

Tier I Systems

(Six Participant Systems)

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety
- Firefighters
- Judges
- Governors and Legislators

Tier II Systems

(Two Participant Systems)

- New Public Employees Tier II Contributory
 - Hybrid
 - Defined Contribution (includes governors and legislators)
- New Public Safety and Firefighters Tier II Contributory
 - Hybrid
 - Defined Contribution
- Judges are not included in Tier II

URS -- Tier I Systems

Six Participant Systems - With Divisions

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety (divisions also include a 2.5% or a 4.0% COLA)
 - ▶ Noncontributory - Division A (with Social Security)
 - ▶ Noncontributory - Division B (without Social Security)
 - ▶ Contributory - Division A (with Social Security)
 - ▶ Contributory - Division B (without Social Security)
- Firefighters Contributory
 - ▶ Division A (with Social Security)
 - ▶ Division B (without Social Security)
- Judges
 - ▶ Noncontributory
 - ▶ Contributory
- Governors and Legislators

For Tier II systems, similar divisions exist, but only for purposes of calculating the Tier I amortization rate for each existing risk pool.

URS -- Tier I Benefit Formulas

Defined Benefit -- Public Employees Noncontributory Retirement Allowance Components

- **Years of Service** (years of service credit)
- **Multiplier** (e.g. 2%* per year of service)
- **Final Average Salary** (average of highest three** years)

* 1.5% for Tier II Hybrid

** Five years for Tier II Hybrid

URS -- Tier I Allowance Formula

Annual Retirement Benefit

Public Employees Tier I Noncontributory

Formula:

Years of Service X 2% X Final Average Salary (FAS)
(FAS = Average of highest 3 years)

Example:

30 years X 2% = 60%



Highest Years:
Yr. 1 \$46,200+
Yr. 2 \$48,462+
Yr. 3 \$49,500

$\div 3 = \$48,054$



60% X \$48,054 = \$28,832

\$48,054 is the final average salary of 2011 retirees,
Comprehensive Annual Financial Report, Dec. 31, 2011

Plus up to 4% annual
cost-of-living adjustment



URS -- Tier II Allowance Formula

Annual Retirement Benefit

Tier II New Public Employees' Contributory Hybrid

The Hybrid includes two parts:
1. a defined benefit as shown in the formula below; and
2. a defined contribution from the employer into a 401(k), if less than 10% of salary is needed to fund the defined benefit.

Defined Benefit Formula:

Years of Service X 1.5% X Final Average Salary
(FAS = Average of highest 5 years)

Example:

35 years X 1.5% = 52.5%



Highest Years:

Yr. 1	\$46,200+
Yr. 2	\$46,800+
Yr. 3	\$47,500+
Yr. 4	\$48,770+
Yr. 5	\$51,000

÷ 5 = \$48,054



52.5% X \$48,054 = \$25,228

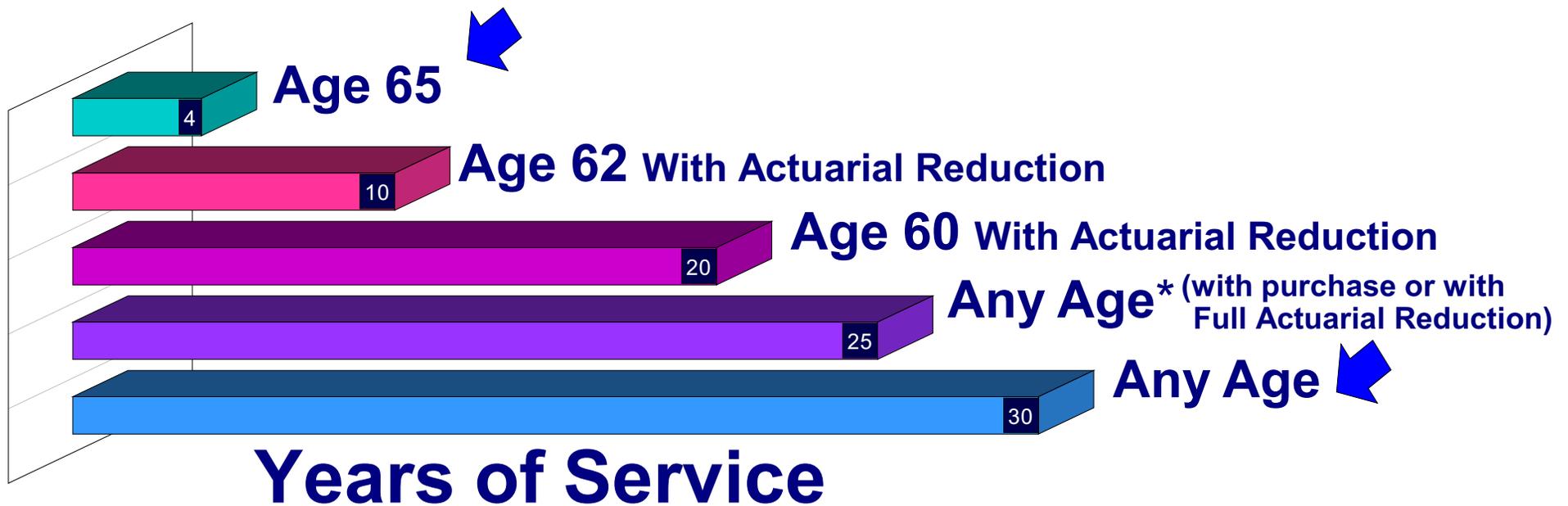
\$48,054 is the final average salary of 2011 retirees,
Comprehensive Annual Financial Report, Dec. 31, 2011

Plus up to 2.5% annual
cost-of-living adjustment



URS -- Tier I Eligibility

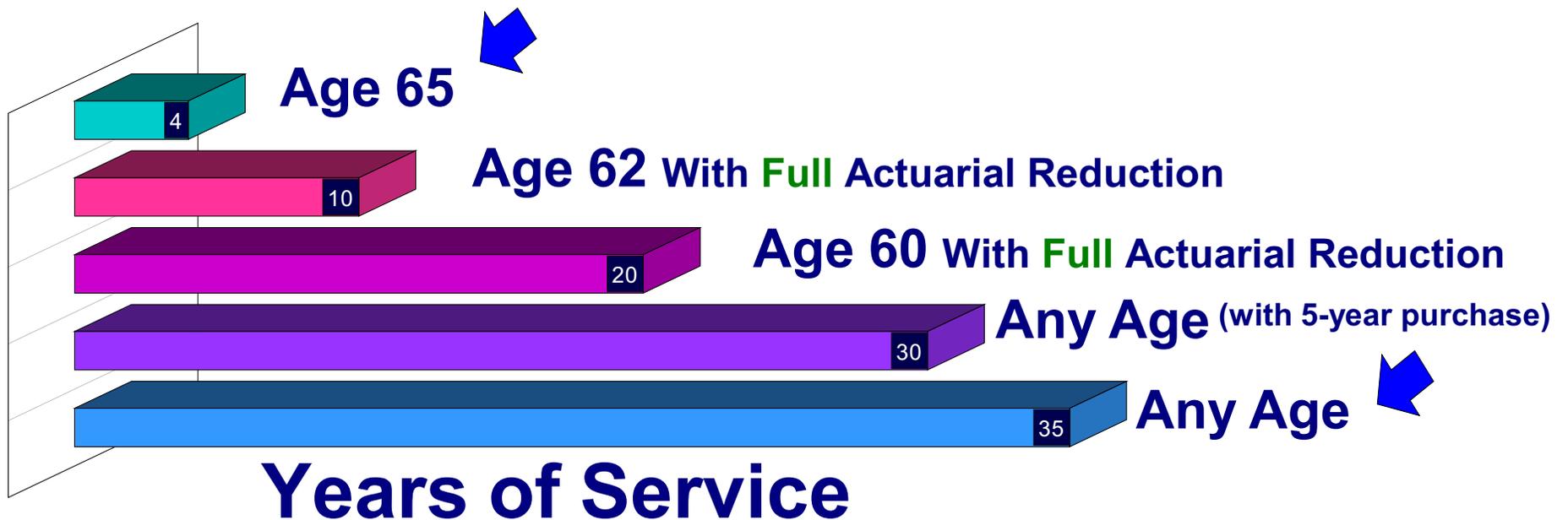
Tier I Public Employees' Noncontributory



*Option not available in Contributory System

URS -- Tier II Eligibility

Tier II New Public Employees' Contributory Hybrid

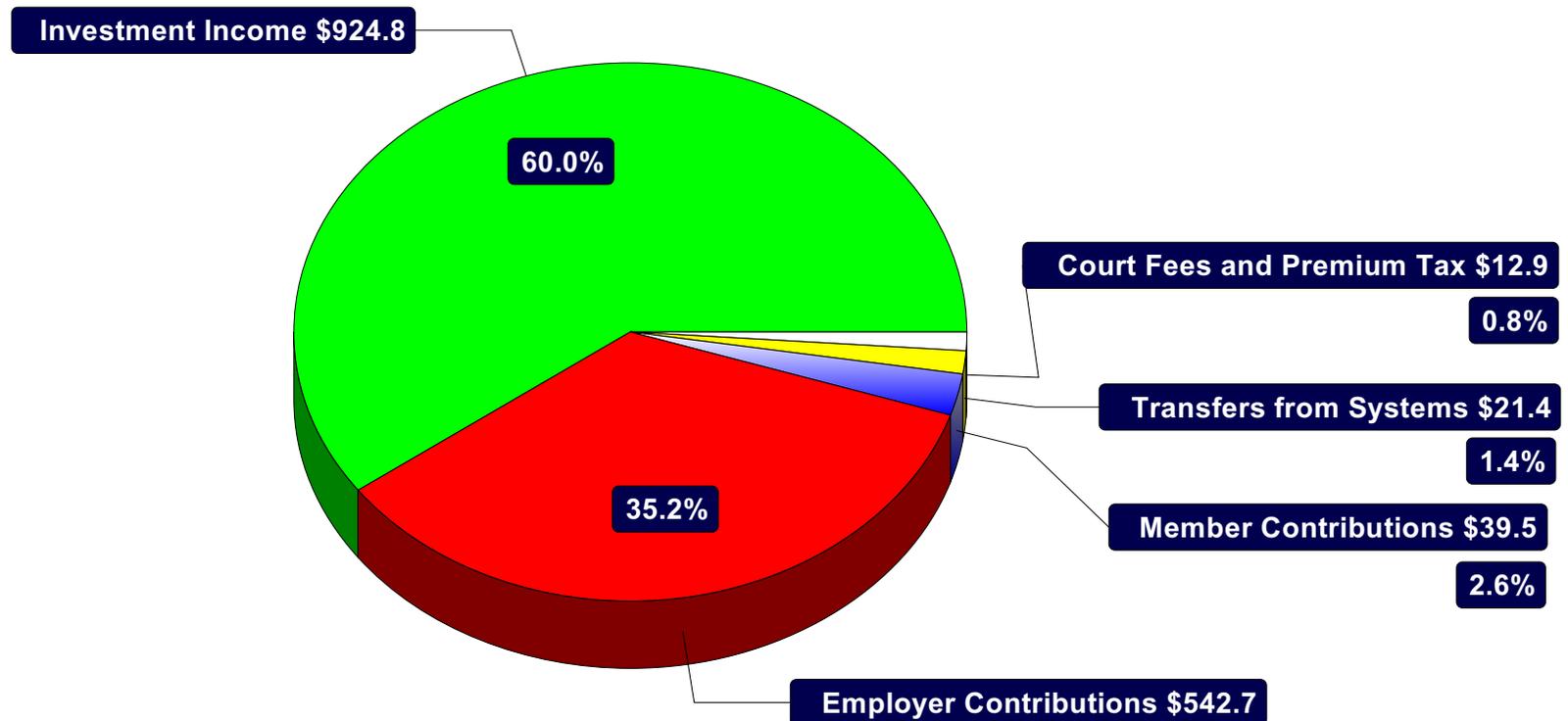


Utah Retirement Systems Revenue Sources

All Six Systems – Average Annual Total = \$1,541.4 Million

(In Millions)

Ten-Year Average 2002-2011



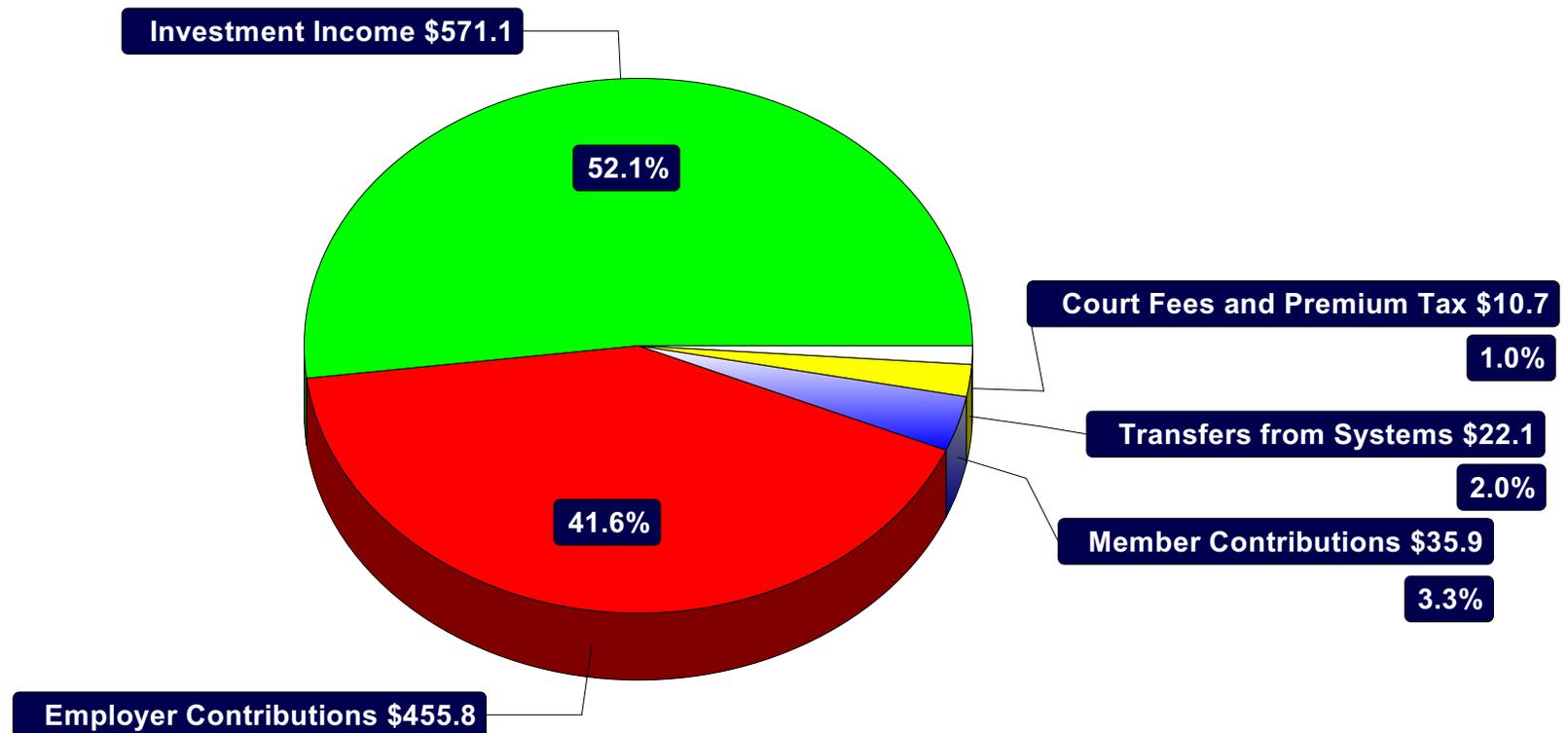
Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2002 to 2011 - For the Year Ending Dec. 31.

Utah Retirement Systems Revenue Sources

All Six Systems – Average Annual Total = \$1,095.7 Million

(In Millions)

Ten-Year Average 1999-2008



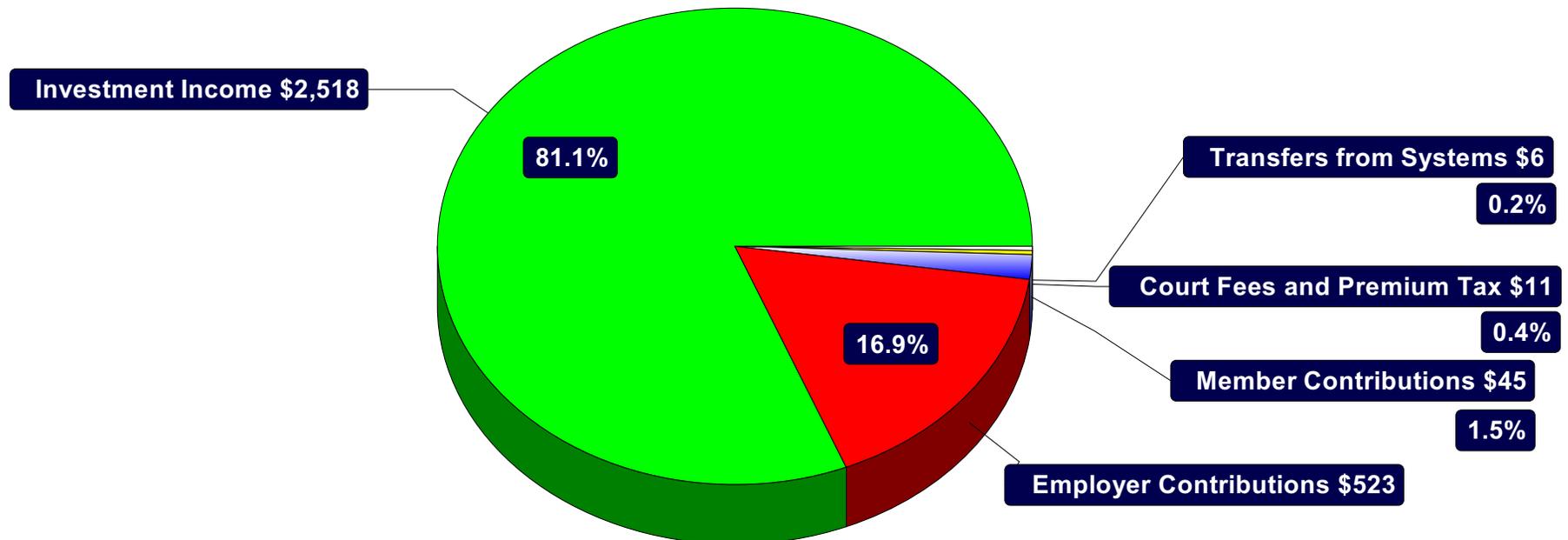
Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2000 to 2008 - For the Year Ending Dec. 31.

Utah State Retirement Systems Revenue Sources

All Six Systems – Average Annual Total = \$1,638.4 Million

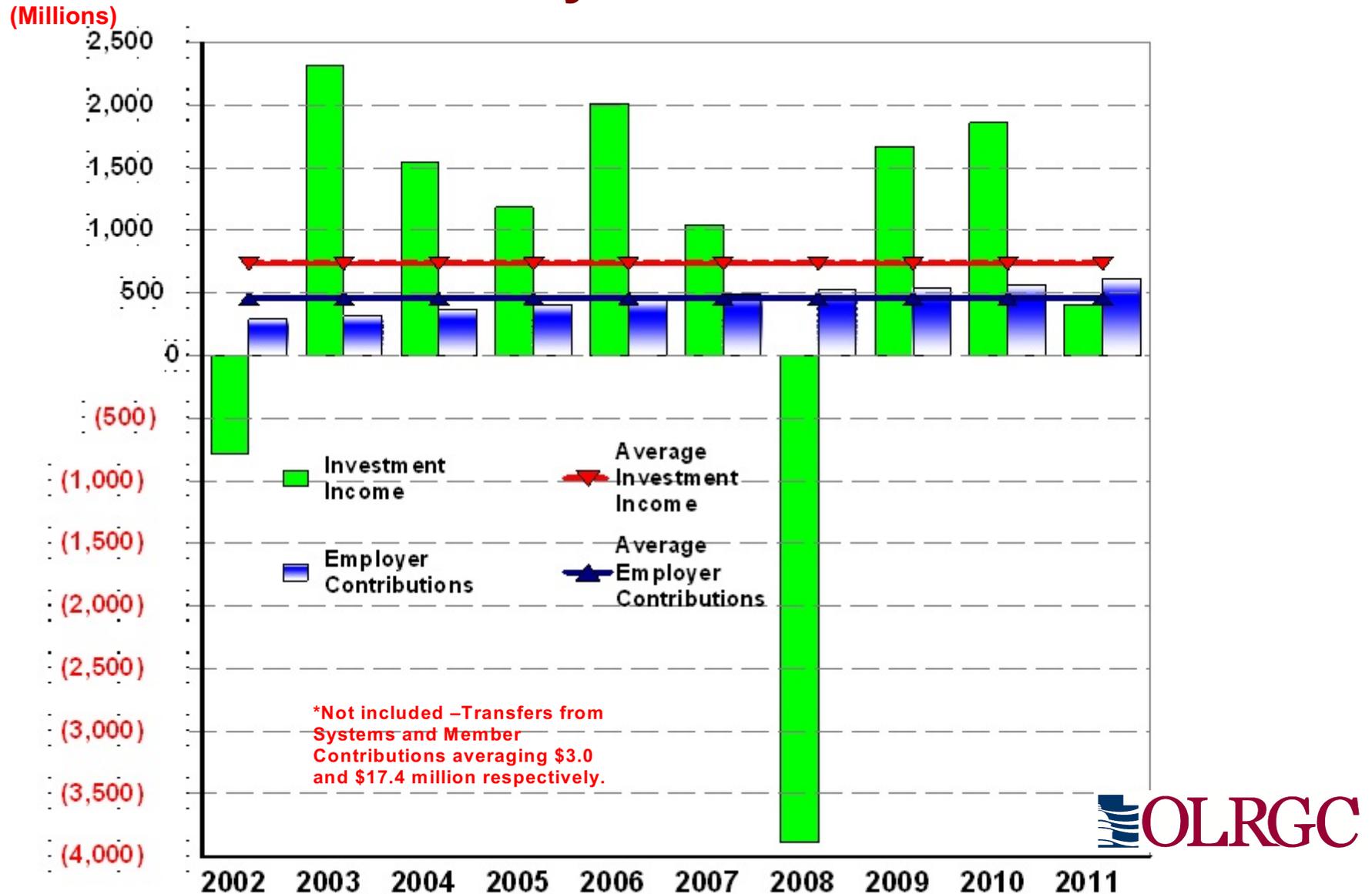
(In Millions)

Ten-Year Average 1997-2006



Utah Retirement Systems

Noncontributory – Revenue Sources*

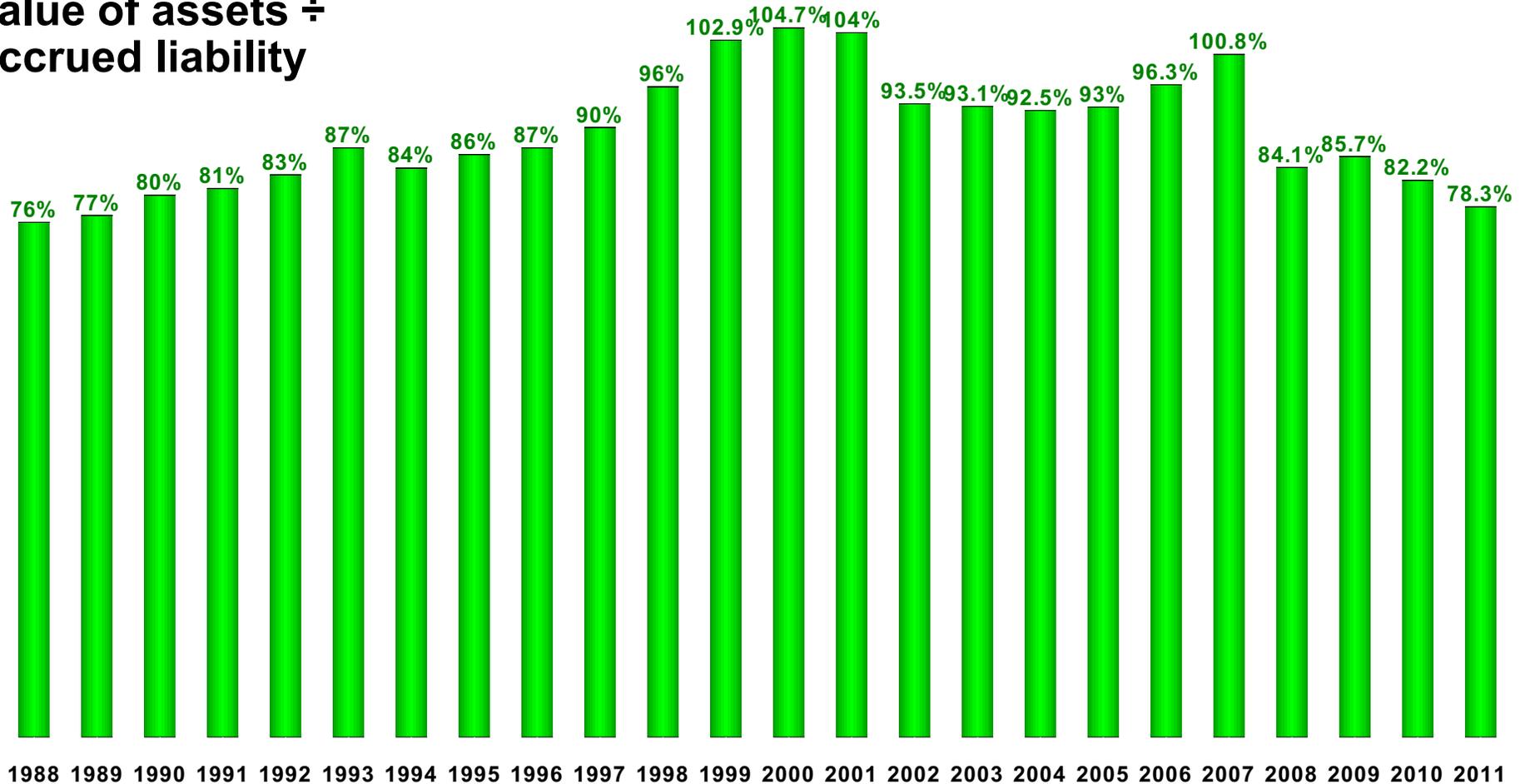


Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2002-2011 – For the Year Ending Dec. 31.

URS -- Funded Ratio History

All Systems

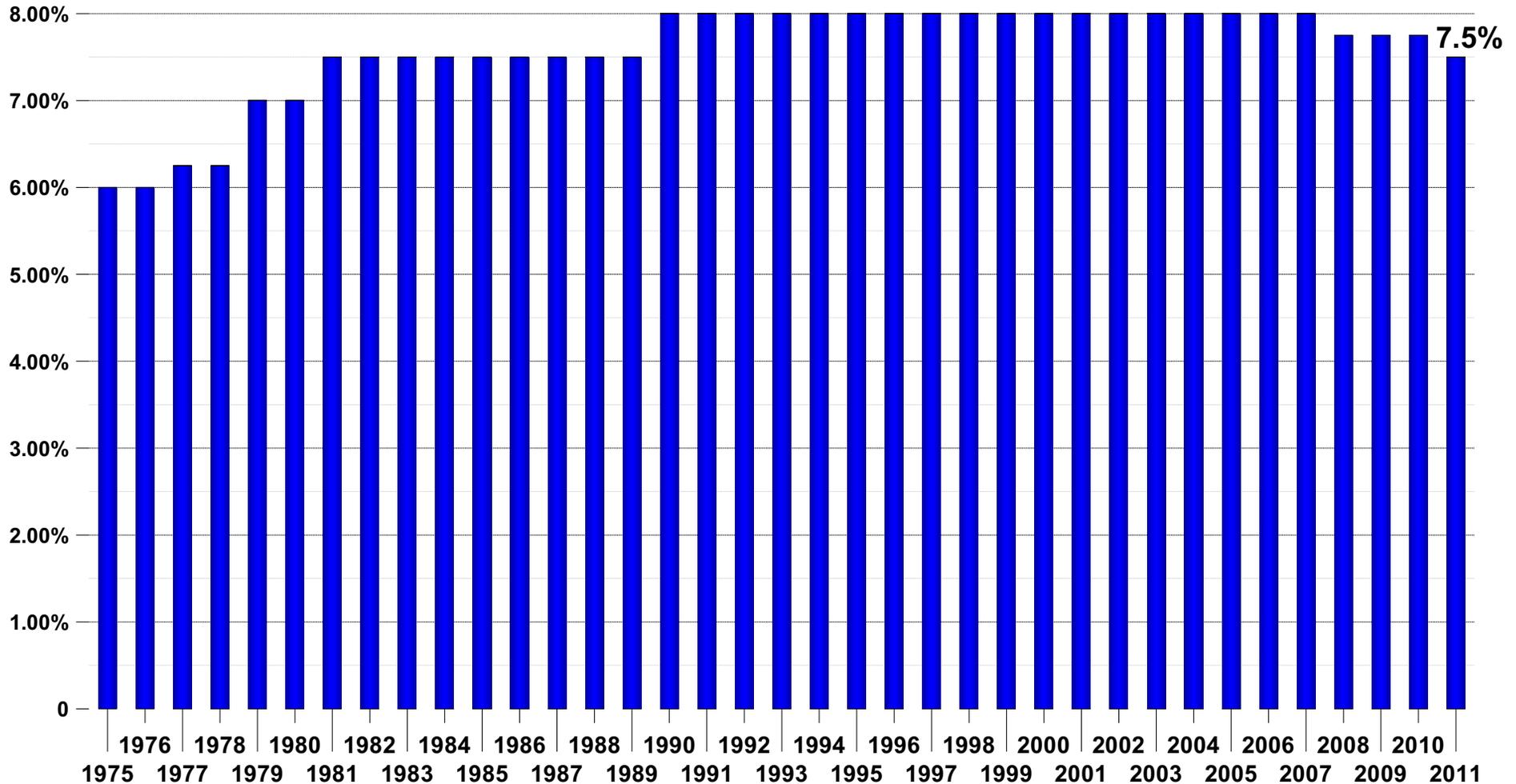
Funded Ratio =
value of assets ÷
accrued liability



Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2001 to 2011 - For the Year Ending Dec. 31.

Historic URS Actuarial Interest Rate

(Assumed Rate of Return on Investments)

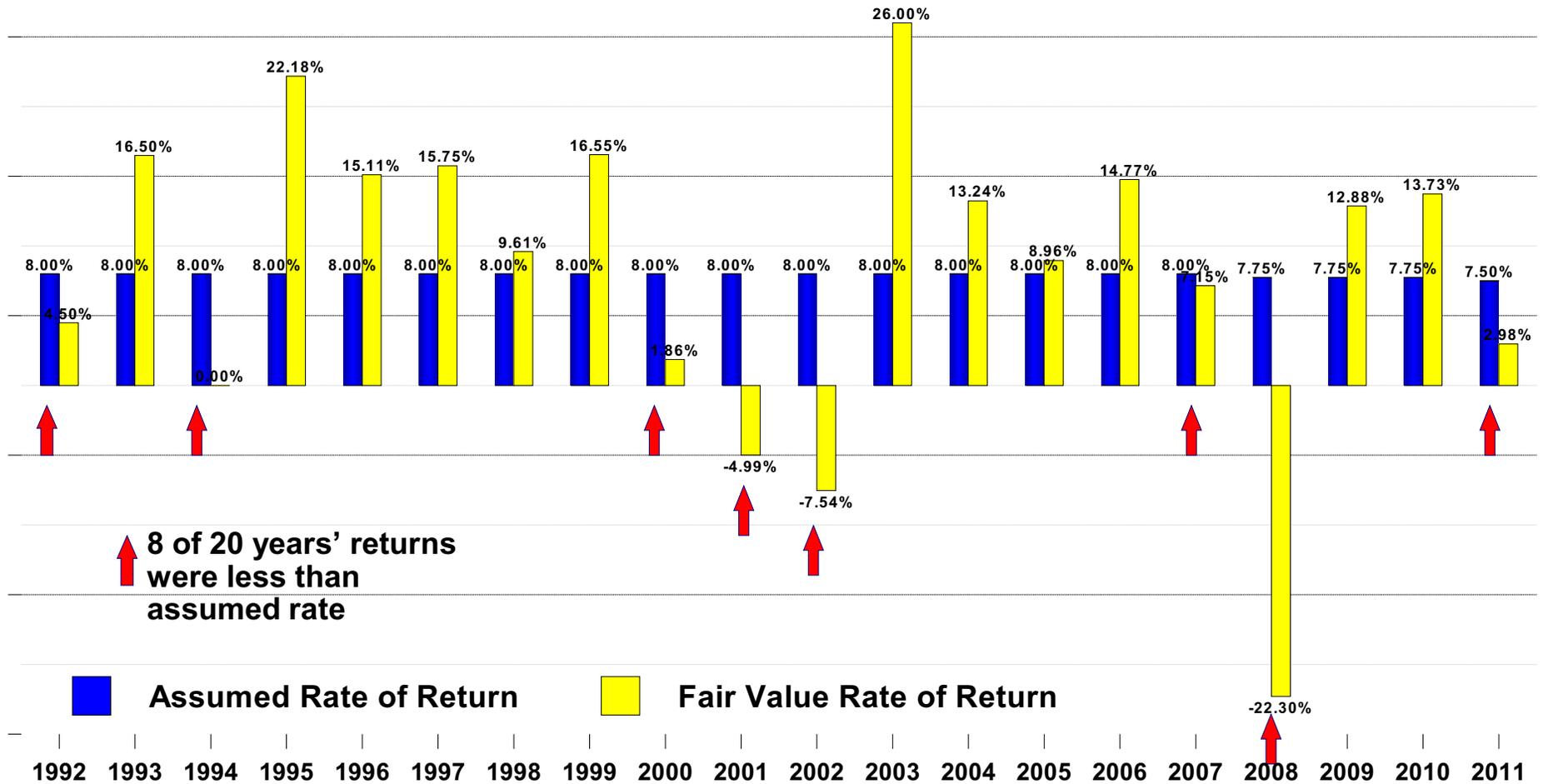


Source: Utah Retirement Systems, September 7, 2011



Historic URS Rate of Return on Investments

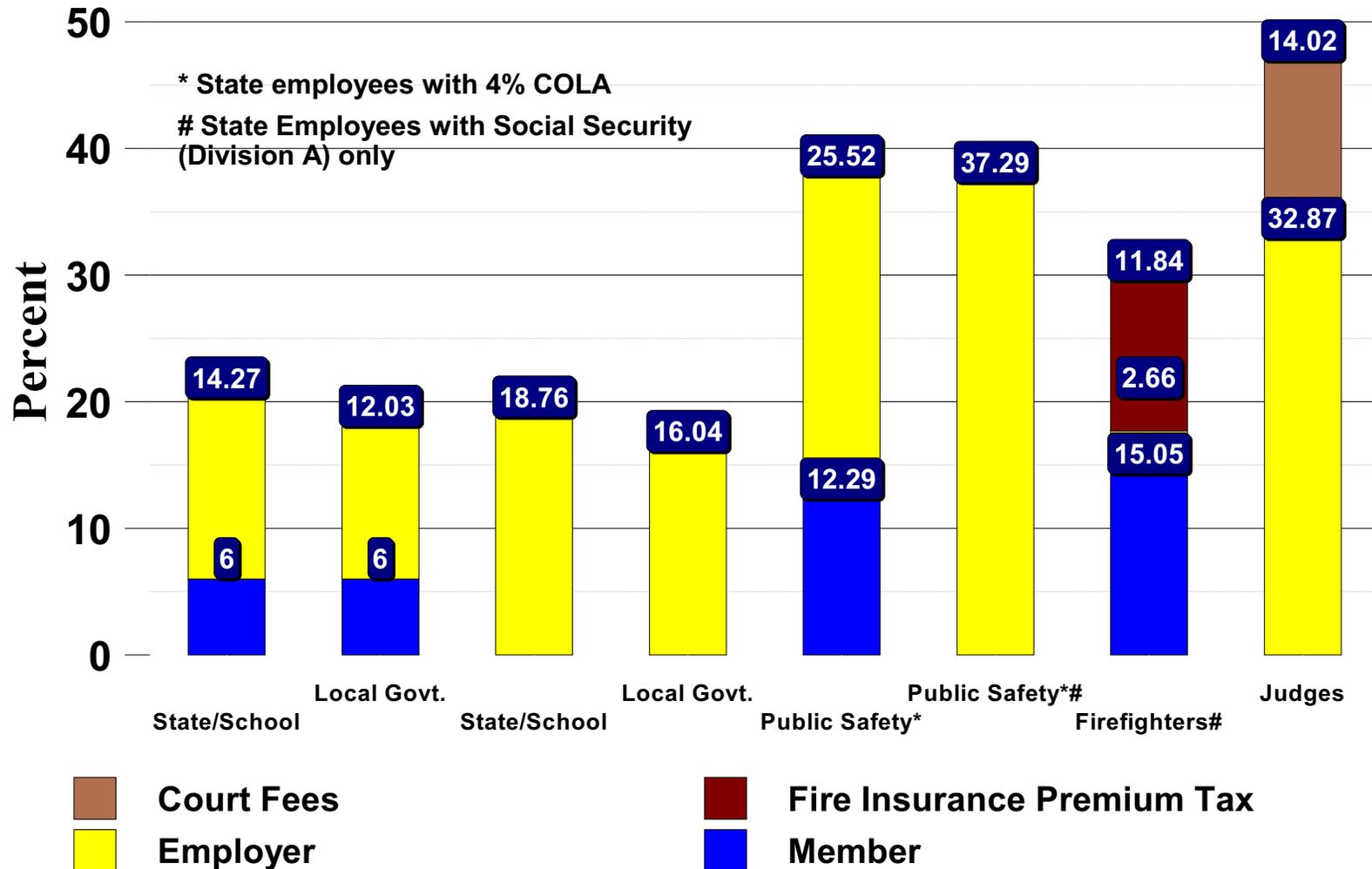
(20-Year History)



Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2000 to 2011 - for the year ending Dec. 31.

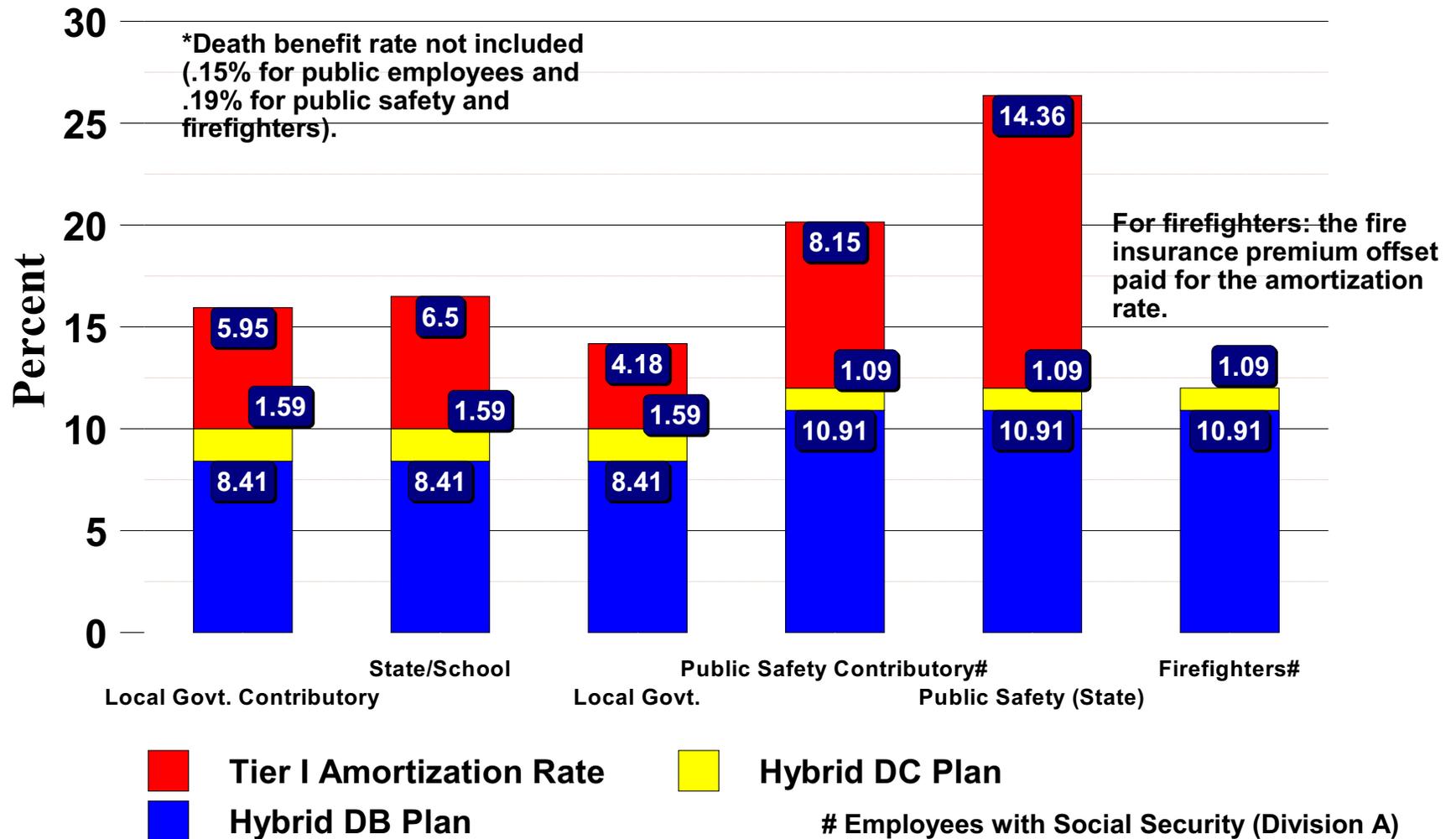
URS -- Tier I Contributions Rates

FY 2013 – Percent of Salary



URS -- Tier II Contributions Rates*

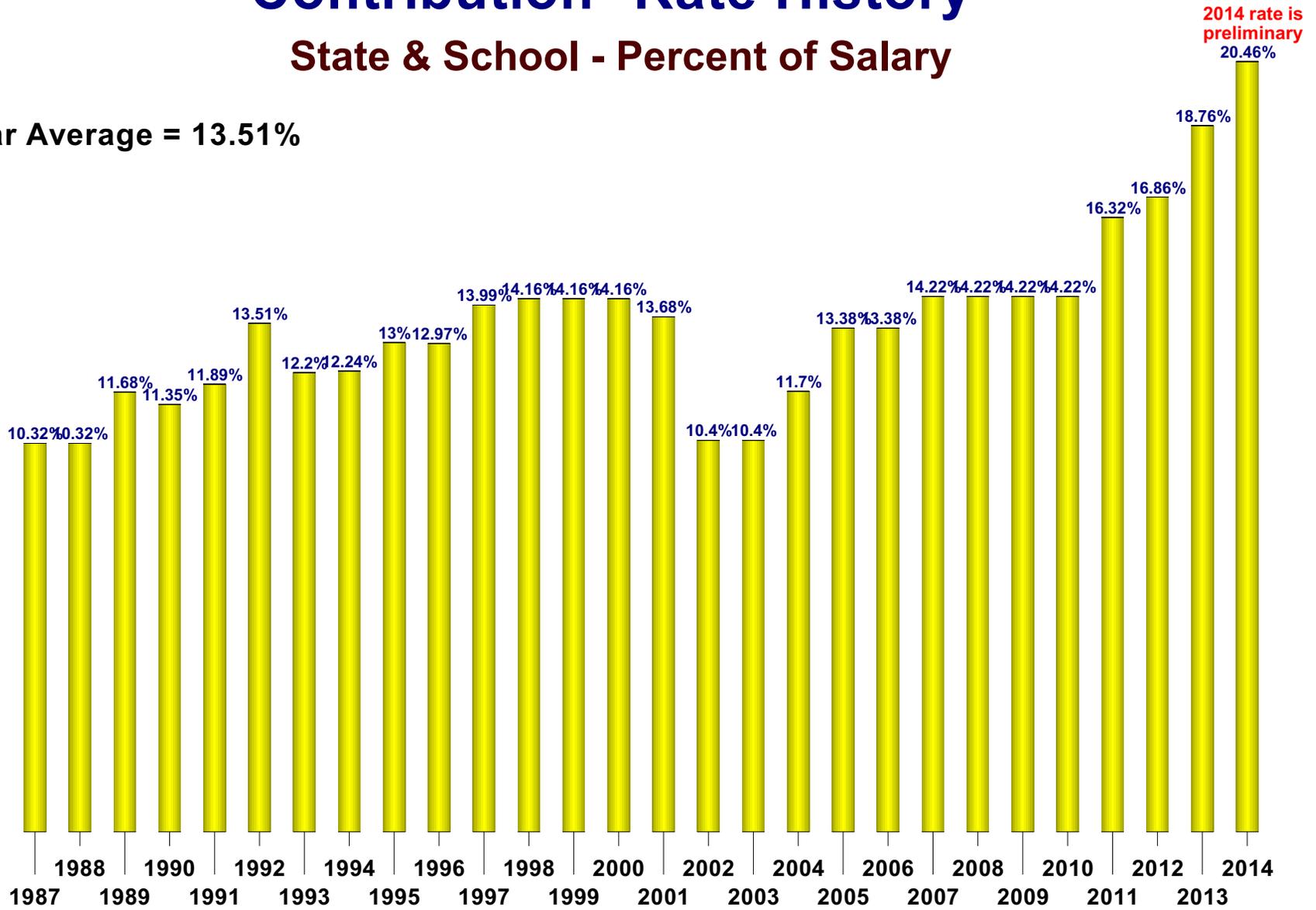
FY 2013 – Percent of Salary



Public Employees' Noncontributory Contribution* Rate History

State & School - Percent of Salary

28 Year Average = 13.51%



*Does not include the required 1.5% 401(k) contribution.

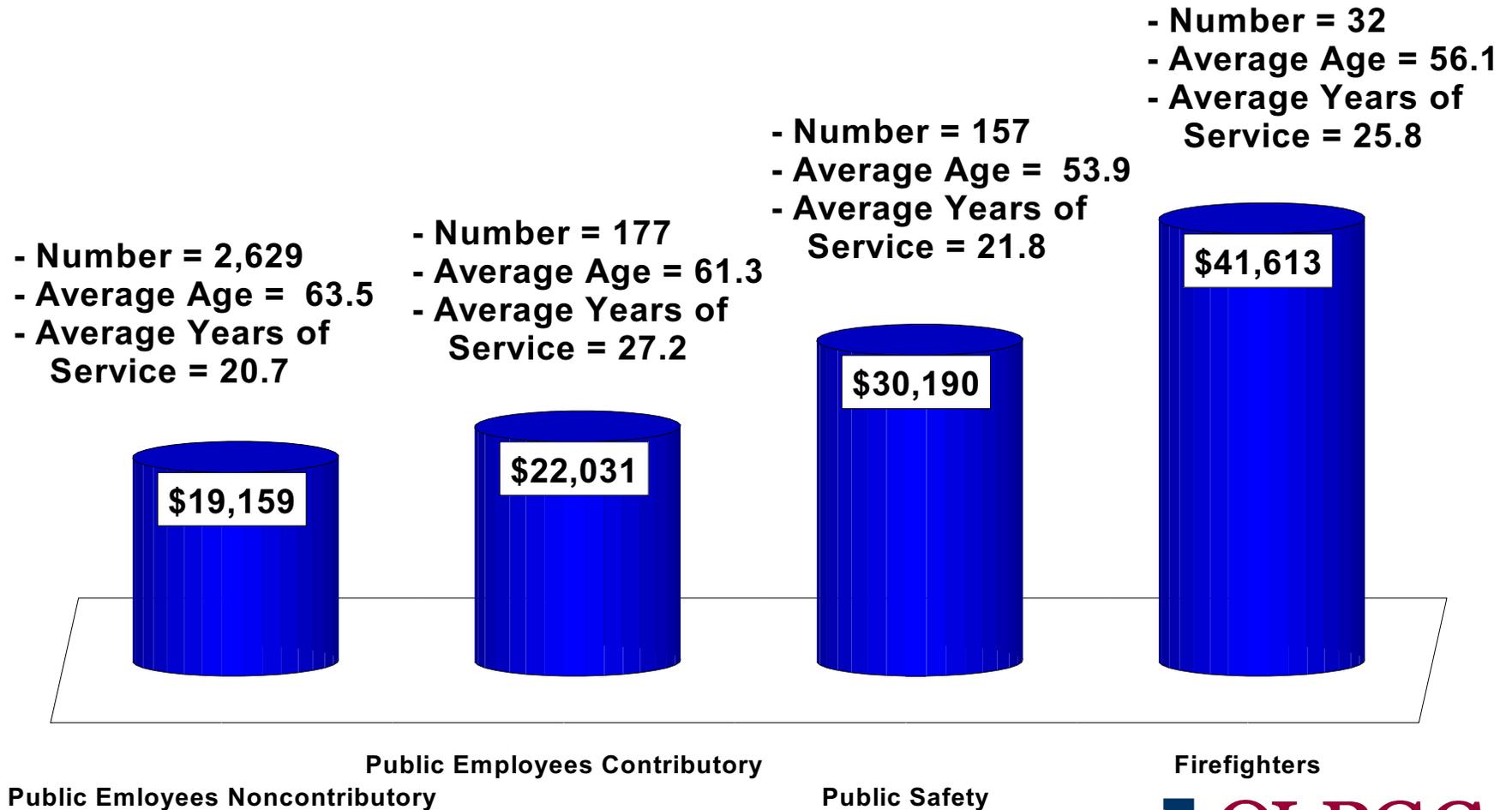
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Fiscal Year



Average Annual Benefit (Retiree Allowance)

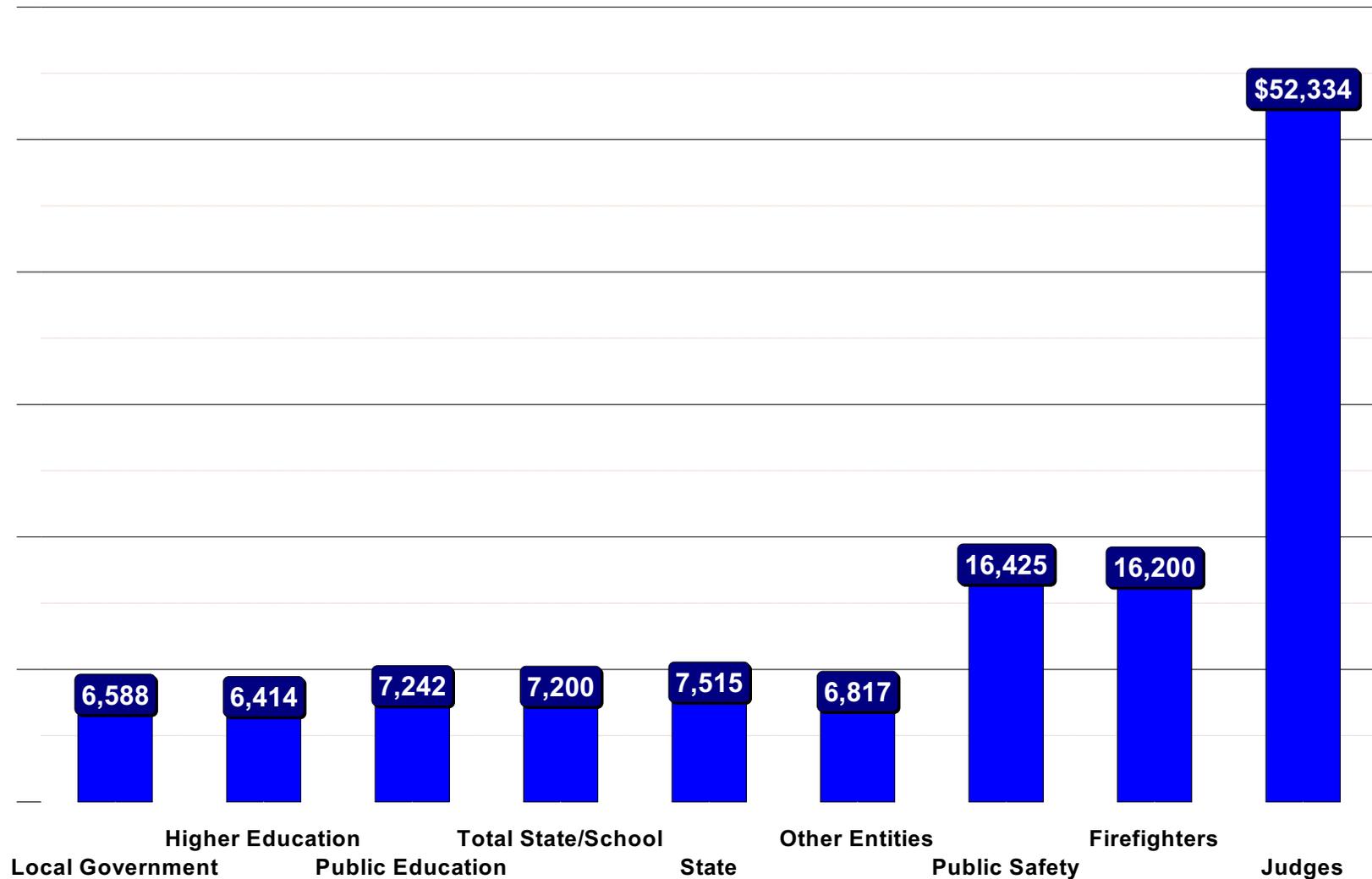
Retirees



Source: Utah Retirement Systems, Comprehensive Annual Financial Report, for year ending December 31, 2011

Average Annual Retirement Contribution Per Employee

Calendar Year Ending December 31, 2011



Source: Utah State Retirement Systems, June 2012

Evaluating Retirement Systems

Potential Success Criteria



**Affordable
retirement benefit**

**Financially
sound
retirement plans**



Predictable employer costs

**Reasonable administrative
costs**

**Attract and retain
quality workforce**

Safe and secure investments

**Competitive total
compensation package**

**Inflation protections
through fixed-income
years**



**Adequate and stable
retirement income
throughout retirement years**



Questions?

End of Slides