Postretirement Reemployment Potential Changes:
Preliminary Actuarial Analysis

October 27, 2015

During its September 24 meeting, the Retirement Working Group prioritized four potential changes to postretirement reemployment laws for further actuarial analysis and Working Group consideration:

1. "Postretirement Employment Restrictions" (Exempt everyone from the current return to work restrictions after 60 days of separation)
2. "Postretirement Employment Exceptions" (Exempt only Educators, Public Safety, and Firefighters from the current return to work restrictions after 60 days of separation)
3. "Postretirement Employment Rural and Title I School Exceptions" (Exempt only rural employers and Title I schools from the current return to work restrictions after 60 days of separation)
4. "Postretirement Reemployment Amendments" (For retirees reemployed at least 60 days but less than one year after retirement and who do not receive any employer paid benefits, increase the earnings limitation from $15,000 to $20,000)

This document has been prepared by the Utah Retirement Systems (URS) based on preliminary information and analysis received from its consulting actuary, Gabriel Roeder Smith & Company.

1. "Postretirement Employment Restrictions"

(Exempt everyone from the current return to work restrictions after 60 days of separation)

Fiscal Impact:
Increase in annual cost for all participating employers: $25.7M
Increase in unfunded actuarial accrued liability: $223.4M
Increase in actuarially determined contribution rates:

- Tier I Public Employees Noncontributory Retirement System:
  - Local Government: 0.32%
  - State and School: 0.41%
- Tier I Public Safety Noncontributory:
  - 1.66% to 2.43%
- Tier I Firefighters' Retirement System:
  - Division A: 1.30%
  - Division B: 1.61%
- Tier II Hybrid Plans:
  - Public Employees: 0.05%
  - Public Safety and Firefighter: 0.42%

Discussion:
Please see the letter from Gabriel Roeder Smith & Company to URS Executive Director Daniel Andersen dated September 23, 2015, including the exhibits.

2. "Postretirement Employment Exceptions"

(Exempt only Educators, Public Safety, and Firefighters from the current return to work restrictions after 60 days of separation)

Fiscal Impact- Total:
Increase in annual cost for all participating employers: $17.6M
Increase in unfunded actuarial accrued liability: $142M
Increase in actuarially determined contribution rates: 0.03% to 2.43%

Fiscal Impact- Educators Only:
Increase in annual cost for all participating employers: $8.2M
Increase in unfunded actuarial accrued liability: $72M
Increase in actuarially determined contribution rates:

- Tier I Public Employees Noncontributory Retirement System, State and School: 0.26%
- Tier II Hybrid Plan, Public Employees: 0.03%

Fiscal Impact- Public Safety Only:
Increase in annual cost for all participating employers: $7.6M
Increase in unfunded actuarial accrued liability: $58M
Increase in actuarially determined contribution rates:

- Tier I Public Safety Noncontributory: 1.66% to 2.43%
- Tier II Hybrid Plan, Public Safety and Firefighter: 0.38%

Fiscal Impact- Firefighters Only:
Increase in annual cost for all participating employers: $1.8M
Increase in unfunded actuarial accrued liability: $12M
Increase in actuarially determined contribution rates:

- Tier I Firefighters' Retirement System:
  - Division A: 1.30%
  - Division B: 1.61%
- Tier II Hybrid Plan, Public Safety and Firefighter: 0.03%

Discussion:
The anticipated change in retirement behavior for each of the employee groups was assumed to be the same as the analysis in our letter dated September 23, 2015. As a result, the fiscal impact for public safety and firefighter funds is the same as documented in the September 23 letter. The fiscal impact for the public employee funds is smaller than the cost documented in the September 23 letter because the exemption only applies to educators.

We assumed that retirement behavior would only change in the employee group exempt from the reemployment provisions because these employee types require specialized educational and training to be considered for employment. For example, it would be uncommon for a retired public employee to have the necessary skills and qualifications to be a candidate for a public safety or firefighter position. Similarly, retirees seeking reemployment in an educator position would need a state certification to be considered for employment as an educator.

3. "Postretirement Employment Rural and Title I School Exceptions"

(Exempt only rural employers and Title I schools from the current return to work restrictions after 60 days of separation)

Fiscal Impact:
Increase in annual cost for all participating employers: *To be determined*
Increase in unfunded actuarial accrued liability: *To be determined*
Increase in actuarially determined contribution rates: *To be determined*

To calculate the fiscal impact for an exemption for rural employers and Title I schools requires taking a proportionate share of the total cost documented in the September 23 letter (Increase in annual cost for all participating employers: $25.7M; Increase in unfunded actuarial accrued liability: $223.4M). For example, if 8% of total positions are with a rural employer and Title I schools, then the fiscal impact would be 8% to 10% of the total fiscal impact. Note, the proportionate share of fiscal impact is slightly higher than the proportionate share of the positions because we expect there to be a slight "incentive" effect.

Identifying the percentage of the positions with a principal place of employment in rural areas will be challenging for large employers (e.g. the State of Utah) that have employment positions in rural and urban areas. Likewise, while URS knows the employing school district of educators, it cannot currently identify which positions are employed at Title I schools. Rural and Title I position detail is employer-level information that is not currently provided to or used by URS. Accordingly, the fiscal impact of this proposal cannot be presently determined from information available to URS and its actuary.

4. "Postretirement Reemployment Amendments"

(For retirees reemployed at least 60 days but less than one year after retirement and who do not receive any employer paid benefits, increase the earnings limitation from $15,000 to $20,000)

Fiscal Impact:
Increase in annual cost for all participating employers: $1.2M
Increase in unfunded actuarial accrued liability: $11M
Increase in actuarially determined contribution rates:

- Tier I Public Employees Noncontributory Retirement System:
  - Local Government: 0.01%
  - State and School: 0.03%
- Tier II Hybrid Plan, Public Employees: 0.02%
- No contribution rate increase for public safety and firefighter systems

Discussion:

We analyzed the earnings distribution for each employee type to identify the opportunity for a retiree to seek reemployment in a position with compensation below the limit. We believe an increase in the compensation limit to $20k does not materially increase the opportunity for public safety members, firefighters, and educators to retire and find employment within the same occupation that would be below the new earnings limit. However, the data shows that there would be some opportunity (albeit small) for the state and local government positions. Therefore, we have applied some minor increases to the retirement rates for public employees (non-educators only). We did not adjust the retirement rates for educators, public safety and firefighters. Although public safety, firefighters, and educators could retire and seek employment in public employee positions, the reemployment analysis we performed over the summer shows this happens on a relatively infrequent basis.

Note, the fiscal impact of alternative earning limits are not proportionate to the cost of a $5k increase in the limit. For example, the fiscal impact of a $10k increase in the earnings limit would be greater than two times the fiscal impact of a $5k increase in the limit. This is because the number of opportunities for reemployment while not being impacted by the earnings limit noticeably increase at higher earnings levels.

Also note that we assume the 50% of the retiree's final average salary limit under Subsection 49-11-505(3)(b)(iii)(A) will continue to be in effect.