Postretirement Reemployment after 60 Days

An overview of current provisions and a proposal to amend the earnings cap

November 10, 2016

	Overview of Current Provisions	Proposal to Amend the Earnings Cap
What are the options for a Utah Retirement Systems (URS) member who is eligible to retire?	1. Keep working past the eligible retirement date: • Earn additional service credit • Receive a larger retirement allowance from URS in the future 2. Retire and receive a monthly retirement allowance from URS: • No more work for any URS participating employer (End all employment, work in private sector, or work out-of-state) 3. Retire and return to work for a URS participating employer before the required separation period: • The monthly retirement allowance is suspended • Additional service credit is earned • The original monthly retirement allowance resumes following termination of postretirement reemployment • If the retiree retires again two or more years after the date of reinstatement to active membership, receives an additional allowance 4. Participate in "Phased Retirement," beginning on or after January 1, 2017: • Continue employment as a working retiree on a half-time basis with the same employer • Receive 50% of the monthly retirement allowance during Phased Retirement • Receive 100% of the monthly retirement allowance following termination of Phased Retirement 5. Retire and return to work for a URS participating employer following the required separation period: • See the details below	*No changes.*

	Overview of Current Provisions	Proposal to Amend the Earnings Cap
What are the separation restrictions for a URS working retiree to continue to receiving a monthly retirement allowance?	A retiree who has completed one year of separation from all participating employers from the retirement date. OR A retiree who has 60 days, but less than one year of separation, if no employer benefits are provided and calendar year earnings are limited to the lesser of $15,000 or ½ of the retiree's final average salary. With annual CPI adjustments, the current cap is $15,809.24. The earnings limit applies to wages each year as a working retiree. In addition, the one-year separation requirement is restarted after the retiree's last day of this restricted reemployment.	Increase the calendar year earnings limit for retirees who reemploy with a URS participating employer after 60 days, but less than one year of separation to the lesser of $20,000 or ½ of the retiree's final average salary. As with the current earnings limit, the $20,000 amount would be adjusted in the future by the annual change in the Consumer Price Index.
What do working retirees receive and what is required or prohibited from the employer?	The retiree receives: • Salary; and • A monthly retirement allowance. A retiree may not earn additional service credit or receive any retirement-related contribution from a participating employer while receiving a retirement allowance. The participating employer pays the amortization rate for the reemployed retiree who has completed the one-year separation.	*No changes.*
What are the anticipated costs of increasing the earnings limit?	*No changes.*	• Increase in collective unfunded actuarial accrued liability: $11 million • Increase in annual cost for all participating employers: $1.2 million • Increase in actuarially determined contribution rates: o Tier I Public Employees Noncontributory Retirement System: o State and School Fund, 0.03% o Local Government Fund, 0.01% o Tier II Public Employee Hybrid Plan, 0.02%[1]

[1] Since the employer's cost is fixed at 10% of pay, the increased cost of the defined benefit plan would decrease the allocation to the members' defined contribution accounts, such as 401(k) accounts.

Additional discussion and actuarial analysis about amending the earnings limit:

It has been shown in prior actuarial analysis that it is more expensive for employers to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age before they intend to leave the workforce.

URS' consulting actuary previously modeled the $20,000 limit change, based on member and financial data that were used to prepare the January 1, 2015 actuarial valuation. The actuary analyzed the earnings distribution for each employee type to identify the opportunity for the retirees to seek reemployment in a position with compensation below the new earnings limit. The analysis indicates that a $5,000 increase in the compensation limit 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 analysis shows that there would be some small opportunity for state and local government positions to retire and find employment within the same occupation that would be below the new earnings limit. To model the anticipated change in retirement behavior, the retirement rates for state employees and local government employees at each age below age 65 were increased by 0.4% and 0.1%, respectively.

A $5,000 increase in earnings limits would result in some small increases to the employer contribution rates for non-educator public employees shown in the table above. Although public safety, firefighters, and educators could retire and seek employment in a public employee position, the historical experience shows this happens on a relatively infrequent basis.

The actuary also notes that the fiscal impact of alternative earning limits are not proportionate to the cost of a $5,000 increase in the limit. For example, the fiscal impact of a $10,000 increase in the earnings limit would be greater than two times the fiscal impact of a $5,000 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.

The actuary's analysis applies to the financial and actuarial effects of the proposed plan changes on URS only. Changes in reemployment provisions could impact employers' hiring, retention, and retirement experience with their employees as well as influence the cost of other benefit programs, such as post-retirement health benefits. These factors could potentially be costs, offsets, or savings for employers, employees, or both. Such possible effects are not included in this actuarial cost analysis for URS.

It should finally be noted that neither URS nor its consulting actuary are for or against the proposed changes. Our goal is to inform the stakeholders of the impact on the retirement systems of changes to these rules. Return to work rules for retirees are policy decisions for the Legislature that are codified in the provisions of Utah Code, Title 49, Chapter 11, Part 12, the Postretirement Reemployment Restrictions Act.