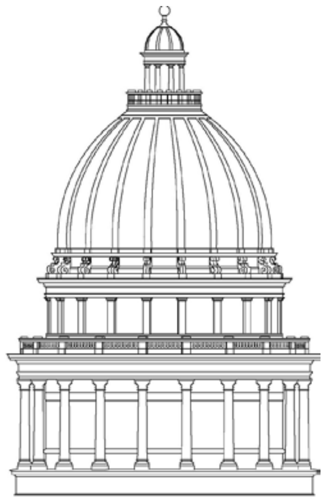
REPORT TO THE

UTAH LEGISLATURE

Number 2009-17



A Performance Audit
of the
Cost of Benefits for Reemployed Retirees
and Part-Time Employees

November 2009

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

STATE OF UTAH
Office of the Legislative Auditor General

315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315
(801) 538-1033 • FAX (801) 538-1063

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

November 11, 2009

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees** (Report #2009-17). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of
A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees

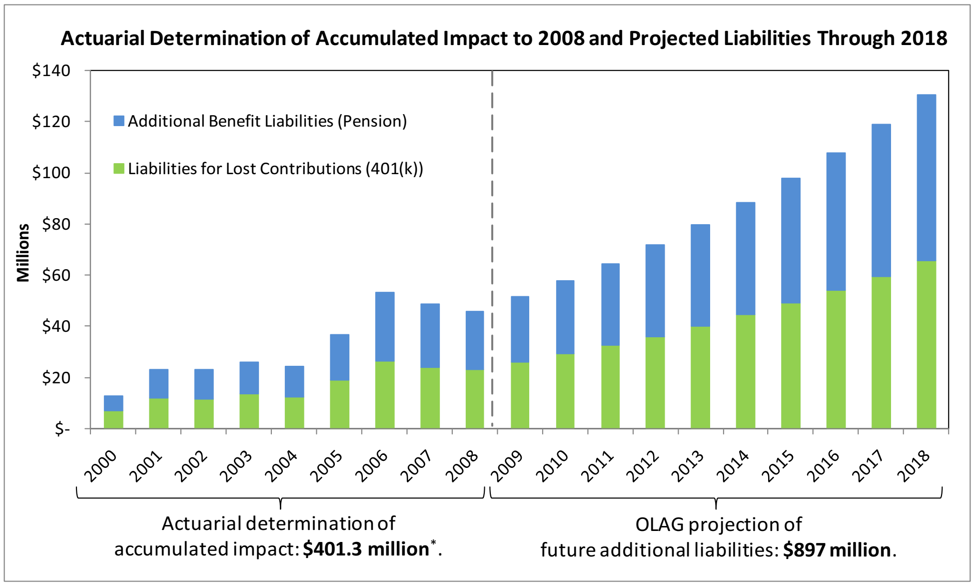
Chapter I: Introduction

This report is an examination of the high cost of benefits for reemployed retirees and part-time employees that significantly impact the state. Specifically, these high benefit costs come as a result of retirees who are reemployed and continue to collect their pension and generous 401(k) contributions. There are also significant costs for part-time employees' accrual of full years of retirement service credits when they go full-time shortly before retirement, and employers paying the same medical premiums for their part-time employees as they pay for full-time employees. Eliminating or restricting these costs would result in changes to actuarial assumptions that would help reduce state contribution rates and medical premiums.

Chapter II: Legislative Changes to Post-Retirement Reemployment Are Necessary

Statutory Changes Have Increased Retirement System Costs. Since 1995, Utah's post-retirement reemployment statutory provisions have been altered enabling more than 4,311 public employees to retire and return to public work while collecting a salary and pension simultaneously. As of December 2008, 2,166 rehired retirees were working full time. When the Legislature discussed statutory changes to post-retirement reemployment in 1995 and 2000, they were told there was no cost to Utah Retirement Systems (URS). A URS official stated that they testified "there was no cost to URS" because they define a cost as an increase in the contribution rate. However, this report documents significant costs that we believe will increase the contribution rates in the near future.

Program Has Been Costly, and Costs Will Continue to Increase if Legislative Changes Are Not Made. We obtained actuary estimates showing a $401 million impact to allow those URS' retirees from 2000 to 2008 to return to work full-time within the retirement system while collecting full retirement benefits. We estimate future additional liabilities of $897 million over the next 10 years if the Legislature does not make statutory changes. Management has the fiduciary responsibility to protect the fund. We believe URS management should, in the future, track and be aware of these costs. These costs are summarized in the following figure:



**This amount was provided by the actuary in Appendix A. It is based on liabilities of $292 million incurred for those retirees who rehired between 2000 and 2008. It also includes interest accumulation.*

Number of Reemployed Retirees Has Significantly Increased Since 1995. Up from 125 in 1995, 2,166 retirees in 2008 worked in a rehired status with almost half returning to work within six months of retirement. No other western state allows retirees to return to full-time employment within the same retirement system, without a break in service, and earn a full pension, a salary and a 401(k) contribution for as long as they remain reemployed.

Chapter III: Defined Contribution for Rehired Retirees Is Excessive

Statute Sets 401(k) Contribution Rate for Rehired Retirees. Current statutory language requires employers to contribute to a 401(k) account for rehired retirees. Statute requires employers to contribute the same percentage of a retiree's salary into their personal 401(k) as they would have contributed to the URS Defined Benefit Plan. Contribution rates range from 11.66 to 39.39 percent of salary for reemployed retirees.

DC Contributions Given to Rehired Retirees Are Expensive and Unique to Utah. The requirement that employers make contributions directly to a rehired retiree's 401(k) is unique to Utah and is expensive to the retirement system. No other state provides contributions to 401(k)s for reemployed retirees, and many private companies have eliminated or suspended 401(k) contributions for employees. The following figure shows 2008 contributions of $14.6 million to 2,166 recipients and historical contributions of almost $61 million.

2008 and Historical 401(k) Contributions to Rehire Retirees			
	401(k) Contributions in Millions of Dollars*		Recipients in 2008
	1995-2008	2008	
State of Utah:			
Public Education	$ 25.2	$ 7.0	1,211
Public Safety	6.0	1.4	115
Other State and Higher Ed	11.0	2.1	322
Subtotal	$ 42.2	$ 10.5	1,648
Local Gov't & Other:			
Public Safety	$ 8.4	$ 2.1	207
Firefighters	0.9	0.2	30
Other Employers	9.5	1.8	281
Subtotal	$ 18.8	$ 4.1	518
Grand Total	$ 61.0	$ 14.6	2,166

**Amounts have been rounded.*

If the current trend of reemploying retirees continues, we estimate the annual 401(k) contribution will increase to $91 million by 2018. Immediate savings would be $14.6 million annually.

Chapter IV: Part-Time Employees' Who Go Full-Time Inflate Their Retirement Benefits

Some Retired Employees Have Inflated Their Retirement Benefits. The Legislature should consider whether an employee who goes from part-time status to full-time status at the end of their career should be allowed to retire with the same retirement service credits as an employee who works full-time their entire career. Current statutory provisions facilitate part-time employees inflating their monthly retirement benefits by simply going full-time shortly before retirement. Employees who work part-time, but go full-time shortly before retirement receive the same benefits at retirement as if they worked full-time their entire careers. Since the state does not prorate years of service for employees that work part-time and then go full-time, some part-time employees have significantly increased their retirement benefits by working part-time for many years and working full-time for a few years before retirement.

Chapter V: Health Care Premiums for Part-Time Employees Have a Financial Impact

Part-Time Employees Could Be Required to Pay Prorated Health Care Premiums. The State of Utah has approximately 700 part-time employees who are currently receiving health care coverage, of which 650 work directly for the state and 50 work for the judicial branch. These part-time state employees pay the same biweekly premiums as full-time state employees. Therefore, the policy question raised in Chapter V is whether the Legislature wants to continue to allow for this disproportionate benefit. If the Legislature decided to prorate health care premiums for part-time employees, the state could save approximately $2.6 million annually, but this savings could increase or decrease depending on the prorating schedule chosen by the Legislature. Our survey of institutions of higher education and school districts found that public and higher education commonly prorate health care premiums for part-time employees. While the state does not currently prorate health care premiums for part-time employees, the state does prorate some other employee benefits, such as annual, sick, and holiday leave. Shifting more of the costs of health care premiums to part-time employees could save the state money, but issues could arise relating to employee morale, retention, and recruiting.

Recommendations

- We recommend the Legislature eliminate the current post-retirement reemployment provisions and implement the following steps: suspend the pension for those who return to work full-time, allow retirees to return to active membership in the retirement system and continue to earn service credits, and resume pension payments when the member ultimately retires.
- We recommend that if the Legislature does not implement the above recommendation, they prohibit any work, inclusive of part-time and contract work, from qualifying as part of the six-month waiting period to return to full-time employment.
- We recommend the Legislature consider amending the post-retirement reemployment statute to require employers to make contributions to Utah Retirement Systems' defined benefit plan instead of making contributions to the personal 401(k) accounts of reemployed retirees.
- If the Legislature chooses not to amend the post-retirement reemployment statute discussed in the above recommendation, we recommend the Legislature eliminate the 401(k) requirement for reemployed retirees.
- We recommend the Legislature require Utah Retirement Systems to monitor, track, and report on any future post-retirement reemployment.
- We recommend that the Legislature require the Utah Retirement Systems to study and make recommendations to the Legislature regarding ways to prevent part-time employees from inflating their retirement benefits.
- We recommend the Legislature consider prorating health care premiums for part-time state employees.

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Audit Performed By:

Audit Manager	Darin Underwood
Audit Supervisors	Maria Stahla
	Brian Dean
Audit Staff	Ian Christensen
	Mandeep Gill

Table of Contents

Chapter I
Introduction

Utah Retirement Systems (URS) recently sustained significant losses due to the economic downturn. Consequently, the Legislature will be looking for solutions to help the retirement fund recover and scale back some benefit costs. In response to a legislative request, this audit is a review of the costs of benefits for rehired retirees and part-time employees. Specifically, this audit indicates that costs are high when a retired employee returns to work and continues to receive a pension and a generous 401(k) payment. There are also high costs for part-time employees' accrual of full years of retirement service credits when they go full-time shortly before retirement and employers paying the same medical premiums for part-time employees as they do for full-time employees.

This audit concludes that specific retirement and health benefits being provided to public employees have a high-cost.

The benefits identified in this report cost the state a significant amount of money in both the short- and long-term. We believe that eliminating or restricting these high-cost benefits would result in changes to actuarial assumptions that would help reduce contribution rates and employer-paid medical premiums.

Recommendations addressing the high-cost benefits identified in this audit would result in changes to actuarial assumptions that would help reduce contribution rates and employer-paid medical premiums.

The following bullets illustrate the nature of these high-cost benefits with more clarity. Actual and estimated costs, as well as other details, are given in the listed chapters:

- **Chapter II:** Individuals who retire from a public employer and return to work for the same or another public employer earn a salary and collect their full retirement benefits. This is referred to as "double dipping." Retirement is not mandatory, and those members who wish to continue working in public employment can do so without retiring and can continue to earn service credits. URS allowed their actuary to consult with us to estimate the cost to the retirement system for retirees who return to public employment and continue to collect their full retirement benefits.

- **Chapter III:** Individuals who retire from a public employer and return to public employment also receive 401(k) contributions at the same rate that would have been contributed to the URS Defined Benefit (DB) plan. The 401(k) rates range from 11 percent to 39 percent of salary, which is both expensive and unsustainable to the state.

This audit examined the cost of post-retirement reemployment, as well as years of service credits for part-time employees who go full-time shortly before retirement, and health benefits provided to part-time employees which are not prorated.

- **Chapter IV:** Part-time employees earn one year of retirement service credit each year, just the same as full-time employees, which can be very costly when the part-time employees go full-time shortly before retirement. Employees who work part-time, but go full-time shortly before retirement receive the same benefits at retirement as if they worked full-time their entire careers. Since the state does not prorate years of service for employees that work part-time and then go full-time, some part-time employees have significantly increased their retirement benefits by working part-time for many years and working full-time for a few years before retirement.

- **Chapter V:** Employers pay the same medical premiums for part-time employees as they pay for full-time employees. Because part-time employees work fewer hours than full-time employees, their premiums could be prorated to reflect time spent working. We found it to be a common practice for both public and higher education to prorate medical premiums for part-time employees, and the state currently prorates leave benefits for part-time employees.

Current Economic Conditions Enhance the Need to Examine Certain High-cost Benefits

The URS is to provide financially sound retirement and 401(k)/457 investment benefits, as well as comprehensive health and dental, disability, and life insurance benefits, to active and retired Utah public employees and their beneficiaries in a courteous, timely, and professional manner. Given the current economic conditions, eliminating or restricting the high-cost benefits discussed in the coming chapters could go a long way in helping URS. However, any cost savings implemented would not solve all of the current financial difficulties experienced by URS.

In 2008, URS returns on investments were the worst in over 20 years.

On September 9, 2009, URS' actuary presented information regarding the current state of the retirement fund to the Legislative

Retirement and Independent Entities Committee. Key points illustrate recent losses:

- The fair market value of the URS fund decreased from \$21 billion to \$15.9 billion (values exclude 401(k) and 457 plans).

- Assets returned a –23.4 percent on market, net of expenses, in 2008. Compared to a 7.75 percent assumption, this implies a –31.15 percent shortfall. (URS' actuary also stated that this was the single worst return in at least 20 years, and probably longer.)

- Assuming a 7.75 percent return, the expected market value of the URS fund was \$22.4 billion on December 31, 2008. The actual return, however, was \$15.9 billion, which equates to a \$6.5 billion shortfall.

Audit Scope and Objectives

This report builds on an earlier report, released by our office in December 2006 titled *A Performance Audit of Post-Retirement Re-employment* (Audit 2006-11). In that audit, we reviewed employees who retired from one department in state government and returned to work for the same department in state government and collected a full-time salary and a full-time pension simultaneously. The audit subcommittee requested a similar audit of public education post-retirement reemployment and then further broadened the request to look at all post-retirement reemployment with any URS employer. The request was again broadened to look at other select benefits for part-time employees currently being administered by URS.

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Chapter II
Legislative Changes to Post-Retirement Reemployment Are Necessary

The accumulated effect of the ***Utah Code*** provisions allowing retirees to return to work full-time for employers covered by Utah Retirement Systems (URS) and collect their full retirement benefits totals $401 million for those retirees who were reemployed from 2000 to 2008. We estimate future additional liabilities of $897 million over the next 10 years if the Legislature does not make statutory changes. URS management has the fiduciary responsibility to protect the fund. We believe URS management should, in the future, track and be aware of these costs.

URS' Actuary calculated the accumulated impact of rehired retirees from 2000 to 2008 ($ in Millions)

$199.7 – Additional Benefit Value
$201.6 - Lost contributions
$401.3 Million Total

When the Legislature discussed statutory changes to post-retirement reemployment in 1995 and 2000, they were told there was no cost to URS. A URS official has stated that they testified "there was no cost to URS" because they define a cost as an increase in the contribution rate. This report identifies significant costs that we believe will increase the contribution rates in the near future.

Unlike Utah, other western states do not allow such permissive post-retirement reemployment practices. We recommend the Legislature eliminate or severely limit those retirees who can return to full-time employment and collect a URS pension. Instead, retirees who wish to return to work can do so but they return to active membership in the retirement system and collect service credits.

Statutory Changes Have Increased Retirement System Costs and Should Be Reassessed

Since 1995, Utah's post-retirement reemployment statutory provisions have been altered enabling more than 4,311 public employees to retire and return to public work while collecting a salary and pension simultaneously.

Current Statutory Provisions Allow Reemployment After Retirement

Utah Code 49-11-504 is the statute governing reemployment of URS retirees. It allows a retiree to return to work for a covered URS employer and continue to draw his or her retirement benefit under the following conditions:

- The retiree goes to work for an employer or agency other than the one he or she retired from.
- The retiree has been retired for six months prior to returning to the same employer or agency.
- The retiree is reemployed at the same agency on a part-time basis (less than 20 hours per week) and earns less than the Social Security earnings limit.

Prior to 1995, public retirees could not earn a full-time salary and a full pension simultaneously.

Prior to 1995, retirees could not earn a full-time salary from any employer in the same URS system while simultaneously drawing a full-time retirement pension. If a retiree returned to work full-time, in the same system, the pension was cancelled and the member returned to active membership status and earned additional service credit. If the retiree returned to another system (such as moving from the Public Safety system to the Public Employees Retirement System), there were salary caps. If the retiree exceeded the salary caps, the retirement benefit was reduced.

The next two sections show how the post-retirement reemployment statutes evolved.

H.B. 107 Enacted in 1995 First Opened The Door to Post-Retirement Reemployment

Retirement Interim Committee was told there would not be a cost to URS to allow retirees to return to public sector employment and keep their retirement checks.

In 1995 ***Utah Code*** 49-11-504 was amended to allow retirees to return to work for another public employer within URS without restriction and earn a full-time salary while drawing a retirement pension. The Retirement Interim Committee and the House of Representatives were told there would not be a cost to the retirement system to allow retirees to return to public sector employment without reducing their retirement benefits. The fiscal note attached to the bill stated there would be no fiscal impact for the bill.

Legislative history makes it clear that employees were not to return to the same agency and "double dip." The term double dipping is used to define the practice of simultaneously receiving a salary and a pension. Although it appears that the Legislature tried to facilitate the move of seasoned employees from urban counties to rural counties, this was not specifically put into statute. Our review shows that the majority of retirees who are reemployed return to work for large urban school districts or the State of Utah.

H.B. 272 (2000) Completely Opened the Door Allowing Return to the Same Organization

H.B. 272, URS' Retirement Office Amendments passed on the last night of the 2000 Legislative General Session. Along with other URS amendments, the bill allowed retirees to return to the same organization with restrictions. The fiscal note attached to the bill stated there was no significant fiscal impact for the bill. The primary restriction was a six-month break in service meant to provide a disincentive for the employee to retire while all along intending to return to work full-time at the end of the waiting period.

Some employees retire, return part-time for six months—sometimes in the same job, and then return to work full-time.

Unfortunately, the six-month break in service is not a disincentive, because retirees use part-time employment as a bridge to full-time employment. In other words, employees retire, return part-time for six months—sometimes in the same job, and then return to work full-time. Some retirees remain part-time during retirement, but that too has a cost because Utah provides generous health care benefits to part-time employees, as will be discussed in Chapter V.

H.B. 272 provided an additional monetary benefit that required employer-paid contributions to a 401(k) account for reemployed retirees. This is another unusually generous benefit that will be discussed in Chapter III.

Program Has Been Costly, and Costs Will Continue to Increase if Legislative Changes Are Not Made

Post-retirement reemployment is a financial benefit to retirees and a financial cost to URS. According to URS' actuary, the accumulated effect of the ***Utah Code*** provisions allowing retirees to return to work full-time for employers covered by URS and collect their full retirement benefits totals $401million for those retirees who were reemployed from 2000 to 2008. We will quote sections of the

URS' actuary has provided cost data showing $401.3 million in additional costs for those rehired from 2000 through 2008. See Appendix A for actuary's entire letter.

actuary's letter in this chapter; the actuary's entire letter is found in Appendix A.

The post-retirement provisions have created costly effects on URS. Employees are retiring earlier than they would have because of the reemployment provisions. Consequently, retirement benefits are paid out sooner and over a longer period of time. The result of public employees retiring earlier than they would have, and then receiving their pension while continuing to work in public employment increases benefits for some employees at the expense of the URS system and all members of the system. It is a very expensive benefit for a limited number of employees.

The next section explains why the reemployment provisions have a cost.

URS' Actuary Calculates that Reemployment Provisions Create Additional Costs for URS

URS' actuary describes why work after retirement (WAR) has a cost. The actuary's comments are in italics.

We believe it is important for the reader to understand why the current WAR provisions might cause the URS contribution rates to increase over time. Evidently, some of the employers and members do not understand how this could be so.

There is an argument that goes:

- *Employee Jones is eligible for retirement.*
- *If Jones decides to retire, his/her benefits are fixed at that time, and won't change if he/she comes back to work under the WAR provisions.*
- *The costs to URS are the same whether Jones lays on the couch, goes to work for Zions Bank, or returns to work for the State of Utah.*
- *Therefore, the WAR provisions should be at worst a matter of indifference to URS and the State.*
- *In fact, because the retirees often have important institutional knowledge and are trained to do specific work, it is advantageous to the employers to bring them back.*

We think this argument fails for two reasons, and understanding these will help explain our analysis.

First, the argument ignores the fact that the current contribution rates are based upon assumptions about when and at what rate members retire. In the Public Safety Systems, for example, all members with 20 or more years of service are eligible to retire, but we do not expect all of them to do so immediately upon reaching 20 years. Some will, but some will continue in service until they have 25 or 30 years of service. On average, the costs to the system are smaller for those who continue in service. If the existence of the WAR provisions causes more members to retire immediately upon earning 20 years of service, contribution rates will increase.

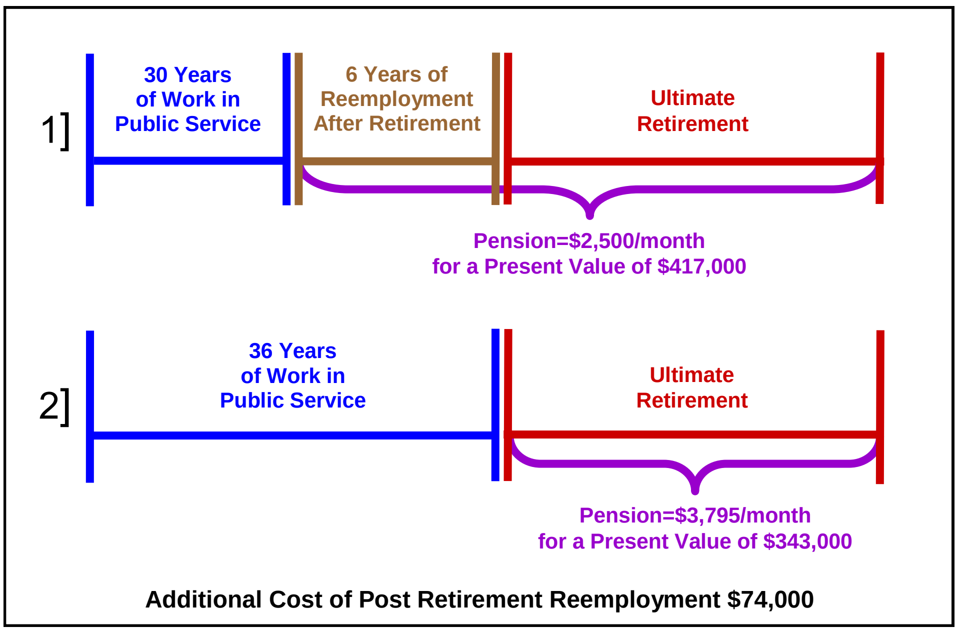
If Jones's decision to retire was not influenced by the WAR provisions, then there would be no additional costs for Jones's benefits. However, we believe the large increases in the number of WAR cases that followed the liberalizations of the provisions enacted in 2000, discussed in OLAG's 2006 report, shows that the provisions do have a significant impact on member decisions of when to retire.

Some people may wonder why there is a cost difference since if the employees continue to work they would receive a larger benefit when they retire. By continuing to work, they will receive a benefit based on more years of service and in almost all cases, a higher Final Average Salary. However, by working additional years, they will lose the retirement payments they could have received in the interim. In most cases the lost payments have a larger value than the increase in the future benefits. Let's illustrate this with an example.

Suppose a male state employee age 58 with 30 years of service retired with a monthly benefit of $2,500. The present value of his benefit at retirement is approximately $417,000. If instead of retiring the member had worked another 6 years, then based on our assumed 4% salary increase, he would be expected to receive a benefit of $3,795 when he retires 6 years later. The increase in the benefit is due to the additional years of service (20% increase) and the increase in the employee's final average earnings (26.5% increase). $2,500 x 1.2 x 1.265 = $3,795. The present value at age 58 of the $3,795 benefit payable six years from now is $343,000. So by continuing to work the employee would receive a larger benefit but the value of that benefit is worth $74,000 less than the value of his pension if he *retired at age 58. The primary reason for this decrease in value is the $180,000 in pension payments made between ages 58 and 64 that the retiree does not receive if he continues to work.*

The actuary's example can be graphically depicted in Figure 2.1.

Figure 2.1 Cost Comparison for an Employee Who Retires and Is Reemployed Compared to an Employee Who Continues Working Until Retirement. An employee who retires at 30 years and reemploys for 6 years receives more and costs URS more (scenario 1) than an employee who retires after 36 years of service (scenario 2). This figure does not include the annual 401(k) contribution received by reemployed retirees that will be discussed in Chapter III.



Time periods not to scale

Figure 2.1 shows that an employee who retires at 30 years of service and works post-retired for six years receives, and URS has to pay, about $74,000 more (net present value), than if the employee worked the 36 years before retiring. For purposes of simplicity, this example omits the 401(k) contribution amount (the topic of Chapter III) that full-time rehired retirees also receive. A state employee in the earnings bracket of the individual in this example would receive an additional 15.72 percent of salary or $6,550 per year in 401(k) contributions.

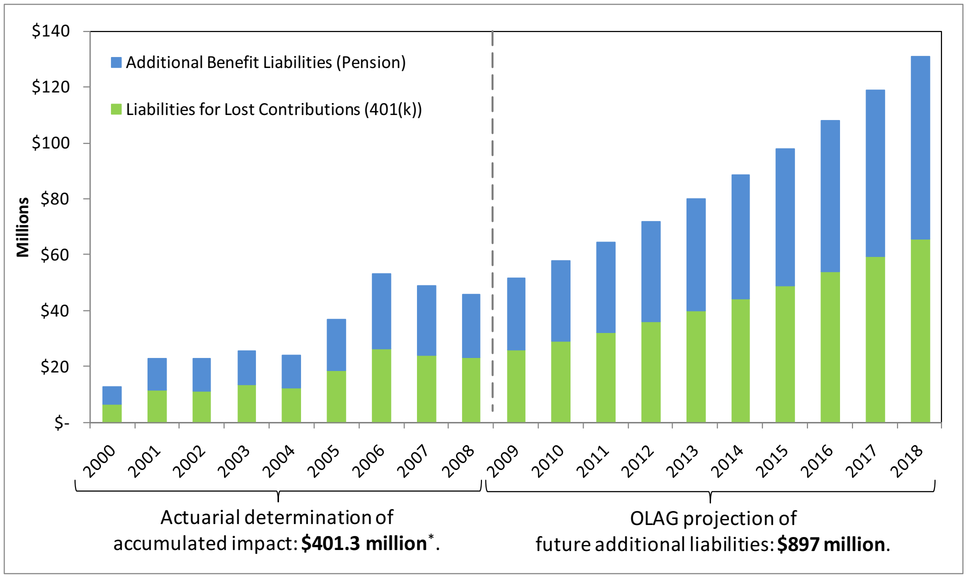
This example debunks the misconception that earning years-of-service credit is the more costly option.

The actuary continues *The second reason that a WAR program can cause contribution rates to increase over time is that the retirement plan receives no contributions on that position. This requires contribution rates to rise to offset the lost revenue. We have seen this in particular in one Public Safety Fund where over about a five year period it added 16 members who were rehired retirees, in a department with about 130 members. This caused the number of active members covered by the retirement plan to decrease from 123 to 114 over this period. As a result, contribution rates for this fund increased relative to the other public safety funds.*

Accumulated Impact of Rehired Retirees From 2000 to 2008 is $401.3 Million

The previous figure provided an example of the increased cost of retirement benefits for one employee who retires and rehires. Figure 2.2 shows the aggregate cost to URS for all rehired retirees. For the retirees who rehired between 2000 and 2008, the actuary calculated the accumulated impact of additional liabilities to be $401 million. The green and blue bars left of the dotted line in the figure show the liabilities for post-retirement reemployment incurred thus far (between 2000 and 2008). The green and blue bars right of the dotted line show OLAG's projections of additional annual liabilities expected to be incurred through 2018. The projections are based on data from URS and the actuary. Again, these costs do not represent the total cost of retirement benefits to rehired retirees, but rather the additional costs that result because of post-retirement reemployment.

Figure 2.2 Aggregate Cost to URS for Reemployment After Retirement Provisions and Projected Costs to 2018. URS' Actuary estimates the accumulated impact of rehired retirees from 2000 to 2008 to be $401.3 million. OLAG auditors estimate an additional impact of $897 million if statutory changes are not made.



**This amount was provided by the actuary in Appendix A. It is based on liabilities of $292 million incurred for those retirees who rehired between 2000 and 2008. It also includes interest accumulation.*

According to URS' actuary, URS incurred an accumulated impact of rehired retirees from 2000 to 2008 to be $401.3 million due to post-retirement reemployment provisions. OLAG auditors estimate that if the current trend of reemployed retirees continues, URS will incur additional liabilities of at least $897 million between 2009 and 2018 (see Appendix B for detail by year). The costs reported do not include liabilities incurred in years 1995 through 1999, nor do the calculations consider the impact of the many part-time rehired retirees.

Suspending Retirement Benefits Would Save Funds

Another way to look at the cost of post-retirement reemployment is that in 2008 URS could have been saved $75 million and kept it in the URS investment portfolio, if Utah, like other states, suspended retirement benefits to retirees who return to work full-time. In 2008 URS paid $60 million in benefits and participating employers paid $15 million in 401(k) contributions to the 2,166 full-time reemployed retirees. The $75 million does not represent the cumulative benefits paid to those retirees, nor does it include the benefits payable to them in the future. It also omits the benefits paid to part-time rehired retirees.

Some employers do not see rehiring retirees as an additional expense because the actual cost is buried in the contribution rates paid to URS. Proponents of rehire-retire claim that employers save money because they do not have to pay health care benefits for rehired retirees. Our review of reemployed retirees in the State of Utah shows that 55 percent receive health benefits and 90 percent receive dental insurance.

The next section of this chapter will show the growth of reemployed retirees.

Number of Reemployed Retirees Has Significantly Increased Since 1995

At least 4,311 public sector employees have retired and returned to work within the public sector. Of the 4,311 rehired retirees, 2,166 were still working full-time in 2008.

Since 1995, 4,311 public sector employees have retired and returned to work in the public sector, simultaneously collecting a salary, retirement pension benefits, and a 401(k) contribution. Up from 125 in 1995, at least 2,100 retirees in 2008 worked in a rehired status with almost half returning to work within six months of retirement. Figure 2.3 shows the overall number of retired and reemployed public sector employees.

Figure 2.3 About 4,300 Public Employees Have Retired and Subsequently Become Reemployed (1995-2008). Majority of retirees are reemployed with the same employer or in the same employer category.

	Rehired by:			
Retired from:	Public Education [1]	State of Utah [2]	Local Gov. & Other [3]	Totals
Public Education	***2,121***	96	104	2,321
State of Utah & Higher Ed	99	***560***	199	858
Local Gov. & Other	85	178	***869***	1,132
Total	2,305	834	1,172	4,311
Percent of Total	53%	19%	27%	100%
	73%			

1. Every district, charter school, and educational organization is considered a separate employer.
2. Every department in state government is considered a separate employer.
3. Every county, county organization, city, town, and other governmental entity is considered a separate employer.

The majority of retirees return to work for the same employer or employer category.

Figure 2.3 shows three major categories of employers—public education, State of Utah, and local government and others. Seventy-three percent of the retirees returned to public education and the State of Utah (highlighted in brown). Since the Legislature funds both public education and State of Utah retirement benefits, we provide detail on these two categories. Appendix C provides detail by employer.

As shown in italics in Figure 2.3, many retirees return to the same major category from where they retired. Specifically, 91 percent of public education retirees returned to public education, mostly to large, urban districts, 65 percent of the State of Utah retirees returned to the State of Utah and 77 percent of local government and others retirees returned to local government. While we did not observe any non compliance with statute, it was evident in the cases we reviewed that retiring was, with few exceptions, simply a maneuver to begin drawing both a pension and a salary. Returning to work soon after retiring suggests the retirees had not genuinely intended on ending their public service careers.

Rehires Are Growing at a Faster Rate than Retirements

The rate of growth of rehires as a percentage of retirements is growing quickly. Figure 2.4 shows the historical number of retirements and rehires between 1995 and 2008.

Figure 2.4 Historical Review of Retirements and Rehires in All Retirement Systems (Calendar Years 1995-2008.) The number of rehires, as a percentage of retirements, has almost tripled, from 8 percent of retirements to 21 percent.

Year*	Total Retirements	Total Rehires**	Rehires as a Percent of Retirements
1995	1,626	125	8%
1996	1,670	149	9%
1997	1,681	152	9%
1998	1,763	185	10%
1999	2,020	226	11%
2000	2,021	209	10%
2001	2,012	268	13%
2002	2,059	240	12%
2003	2,161	297	14%
2004	2,185	314	14%
2005	2,712	372	14%
2006	3,177	627	20%
2007	2,584	618	24%
2008	2,474	529	21%
Total	**30,145**	**4,311**	**14%**
Change from '95 to '08	**52%**	**323%**	
Annual	**3.3%**	**11.7%**	

H.B. 107 (1995) only allowed rehires to another agency (green shading).
H.B.272 (2000) allowed rehires to the same agency (brown shading).

** Prior to 1995, rehires were not allowed to earn a salary and pension simultaneously. If retirees returned to public employment, their pension was suspended until they ultimately retired.*
*** Includes full-time and part-time employees. Not all retirees who return to work do so during the same year that they retire, and many rehire more than once after retiring. Appendix D provides more information on total versus single instances of reemployment.*

The number of rehires as a percentage of retirements has almost tripled.

Figure 2.4 shows the number of retirements gradually grew from 1995 to 2008, a 52 percent increase in 13 years. In contrast, the number of rehires grew 323 percent—from 125 in 1995 (the first year that retirees were allowed to return to a URS employer and keep their pension benefits) to 529 in 2008. This represents an average increase of 11.7 percent each year.

Acknowledged to be only a rough comparison, the annual number of people who returned to work after retirement increased from 8 percent of all retirements to 21 percent over the period. However, this seems to be a more accurate measure of the prevalence of returning to work.

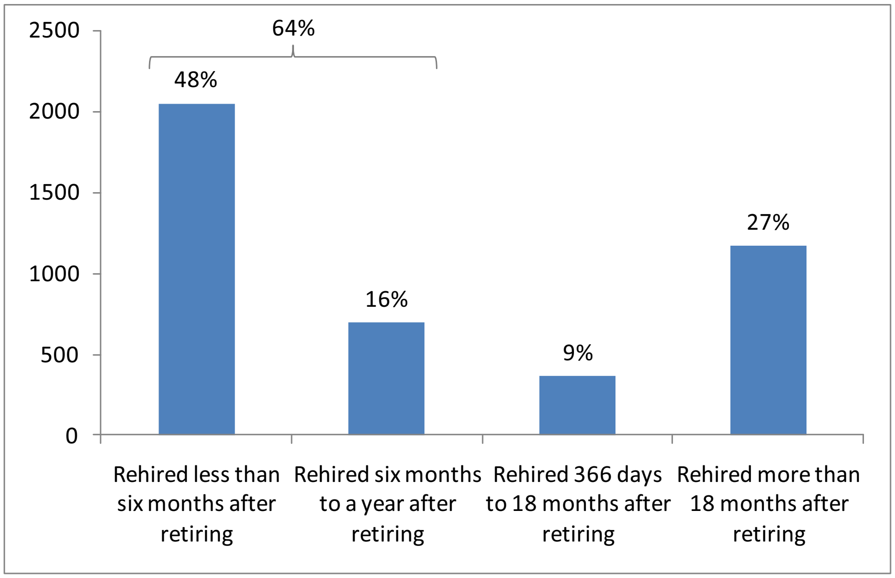
There was a spike in retirements in 2005 and 2006. Although it is difficult to know for certain the intention behind every retirement, we know that some members retired in order to lock in their benefits before the H.B. 213(2005 General session) health insurance changes took effect. A corresponding spike in rehires occurred. We asked some reemployed retirees if they would have retired if they would not have been able to return to work and found that they would not have retired; they would have simply continued to work.

Retirees Return to Work Immediately at Young Ages and Continue Working for Years

Public sector retirees return to public sector work after retirement and continue to work for many years collecting a pension, a salary, and a sizeable 401(k) contribution. This section provides three figures and analysis showing how quickly retirees return to work, their ages at retirement and rehire, and how long they work in a post-retired capacity.

Almost half of the retirees returned to work within the first six months of retiring, as shown in Figure 2.5.

Figure 2.5 Length of Time Between Retirement and Return to Work. Sixty-four percent of all rehired retirees return to work within one year of retirement.



The fact that almost 64 percent of retirees return to work within the first year of retirement suggests that most retirees may not have a genuine intent to completely leave public employment.

Figure 2.5 shows that 64 percent of reemployed retirees return to work within the first year of retirement, many within days of retirement, suggesting that most may not have had a genuine intent to completely leave public employment at the time of their retirement. Rather, it appears these retirees left in order to take advantage of the opportunity to return to work and earn a salary, a pension and a 401(k) contribution. Another indication that many employees are not retiring with the intent to end their working years is that so many return to the same employer from which they retired.

Another indicator is the age at retirement and rehire. The following figure shows the number of people who retired and rehired at each age from 1995-2008.

Some employees are retiring and returning to work post-retired in their 40s and simultaneously collecting a pension, a salary and a 401(k) contribution for many years.

Figure 2.6 Ages of Reemployed Retirees at Retirement and at Time of Rehire (1995 – 2008). Employees retire and return to work as early as 40 years of age. The red column represents how many employees retired at each age whereas the green represents how many employees rehired at that age.

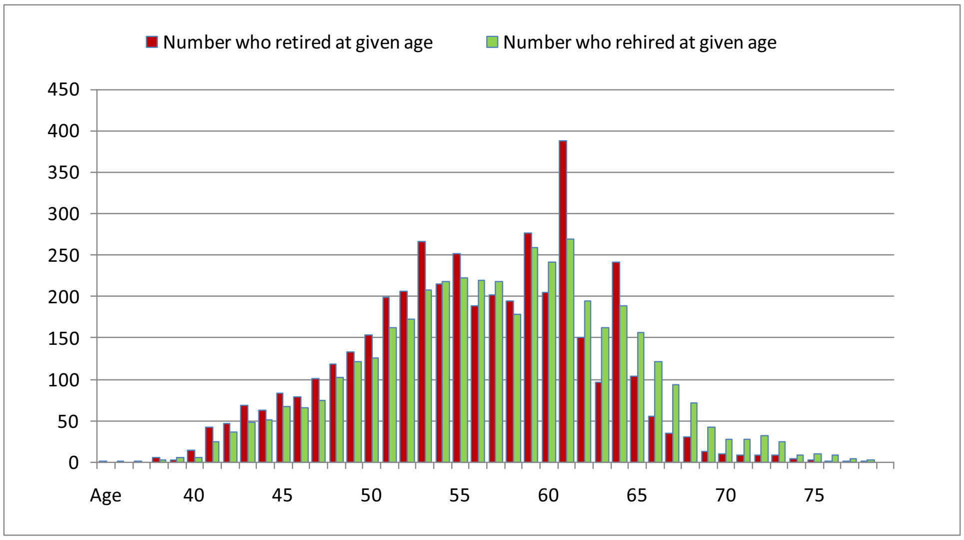
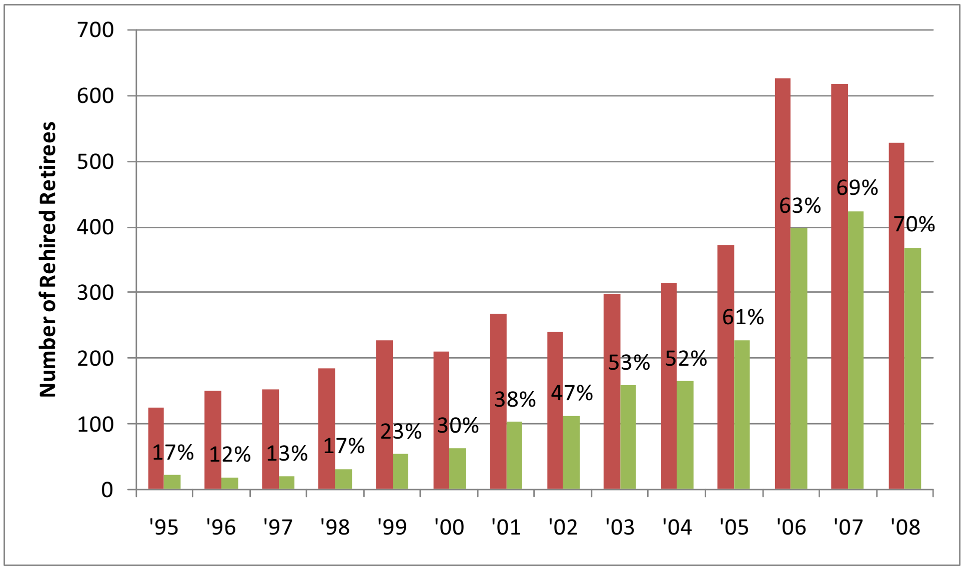


Figure 2.6 illustrates the number of rehired retirees that retired and rehired at a given age. Some rehired retirees return to work in their early 40s. Typically these employees work in public safety and corrections where they can retire after 20 years of service. Considering the relatively early age of rehire, the potential for many additional years of post-retirement employment is likely.

The figure also shows that the bulk of employees retire and return to work in their mid-50s and 60s. Typically these employees are those that work in the retirement system that requires 30 years of service. In addition, after 60, rehires outpace retires which suggests that retirees returned to work after a more substantial break in service. We assume some return for the excellent health care benefits and small premiums that we will discuss in Chapter V.

The following figure provides another view to show how long some retirees work in a post-retired status.

Figure 2.7 Length of Time over Which Full-Time Rehired Retirees in 2008 Have Been Reemployed. Red columns indicate the number of retirees who became reemployed each year. Green columns indicate how many of the rehires from each year worked full-time in 2008. Combining all green bars together represents the 2,166 rehired retirees working full-time in 2008.



Some retirees have worked post retired for more than a decade, collecting a pension, a salary, and a 401(k) contribution simultaneously.

The graph illustrates the number of reemployed retirees that retired each year and the percentage that remained employed in 2008. For example, 125 retirees were reemployed in 1995. Of those rehired retirees 17 percent remained employed in 2008, meaning they worked 13 additional years beyond their retirement. Combining all green bars from 1995 to 2005 accounts for 45 percent of the total rehired retirees in 2008.

Public Education and State Employees Make Up a Large Portion of Post-Retirement Reemployment

The decision to retire is not necessarily the same as a decision to stop working in the public sector. Seventy percent of reemployed public retirees return to work for the same school district or state agency they retired from, primarily in urban districts and departments in state government. The remaining 30 percent return to work for another URS-covered employer. While some return to work in a full-time position at a district or charter school other than the one from which they retired, in many cases, those same teachers, administrators, and school staff return to the same district they retired from—often returning to the same school—after working for a year (or sometimes less) at the first post-retirement job. Appendix E provides additional detail showing where public education and state retirees returned to work.

Other teachers only work part-time in retirement, and some work part-time at the same school they retired from for six months before resuming full-time employment. While current statute permits all of these methods for returning to work, it is our belief that they are all ways to increase benefits for a few people at the expense of the URS system.

In the majority of cases, the fact that they went right back to work suggests that the retiree had no intention of ending his or her career at the date of retirement. It was simply a maneuver to collect a salary and retirement benefits simultaneously.

Most Educators and Staff Return to the Same Districts from where They Retired

URS records show that 91 percent of all public education rehired retirees returned to work for public education—most to the same district from where they retired. Our review showed three primary ways that retirees return to work using the statutory provisions:

The majority of Public Education rehired retirees return to the same district from where they retired.

- Retirees return to work full-time at a different district immediately after retiring, enabling them to avoid the six-month break-in-service requirement. Some remain at the new district, and some return to the same district from which they retired after a period of six months or more.
- Retirees return to work on a part-time basis for a minimum of six months, and then resume full-time work.
- Retirees extend their three-month summer vacation and take a break in service of six months or more, and then resume full-time work.

A portion of the retirees who returned to the district from which they retired were not certified school teachers but were classified employees, such as maintenance workers, office staff teachers' aides, and lunch workers.

While current statute permits all of these methods for returning to work, it is our belief that, in the majority of these cases, there is evidence to suggest that the retiree had no intention of ending his or her career at the date of retirement. The following three examples show cases we reviewed where it appeared the retirees had no intention of ending his or her career.

- A teacher in one school district retired and immediately returned to work in another district for exactly six months before returning to the district retired from.

- One classified worker retired, worked part-time for different school districts, and was then rehired at the district he retired from (in the same position) exactly a year from the date he retired.

- One assistant principal retired midyear and was immediately rehired at a different school as a substitute assistant principal. Six months later, this employee was hired as a full-time principal at a third school. All three schools are in the same district.

Even though we found no written or verbal evidence of positions being held for certain individuals, as stated previously, we question whether the six-month part-time provision does not substantively hold positions. This raises the question of the impact on a classroom when a teacher retires or rehires in the middle of a school year.

It appears the six-month part-time provision substantively holds positions.

Majority of Rehired Retirees in State Government Return to the Same Department from Where They Retired

URS considers the State of Utah one employer; in practice, however, every department is a separate employer. Consequently, employees can retire from one department and return to work in another department the next day with no break in service (see Appendix F for detail by department).

Seventy-eight percent of rehired retirees return to work in the same department from where they retired. The Department of Corrections (DOC) has the largest number of retirees who returned to work full-time in the same department. Up until 2007, employees in DOC retired and immediately returned to work in another division of DOC with no break in service. In response to findings described in *A Performance Audit of Post-Retirement Re-employment (Audit 2006-11)*, statute was clarified to disallow this practice. In response to the new

Since every department in state government is considered a separate employer, retirees can retire and return to full-time employment with another agency immediately.

legislation, employees now retire, wait at least six months, and then reemploy full-time with DOC.

Some departments rehire staff for temporary, time-limited or seasonal positions. The Departments of Natural Resources and Workforce Services have large numbers of reemployed retirees. Most work in temporary, time-limited positions without benefits.

Although most rehired retirees return to the same departments from where they retired, the data show there is some movement among departments. For example, some employees retired from the departments of Health, Technology Services, Corrections, Public Safety, Human Services and Environmental Quality, or the Board of Education and returned to work post-retired in the Department of Workforce Services (DWS) as workforce specialists, office technicians, business analysts, and a regional director.

Similarly, retirees from the departments of Workforce Services, Health, and Human Services were rehired by the Board of Education in a variety of jobs ranging from office specialist, instructor, and consultant. The amount of time between retirement and reemployment ranged from one day to seven years.

Rehire Occurrences in Public Safety Are More than Double Those of Public Employees

Compared with the number of currently employed retirees from the public employees' retirement system, the public safety retirement system has almost twice the percentage of its retirees working in post-retirement re-employment. One reason for the disparity is that rehire-retire is particularly beneficial to public safety workers. Using the 1995 reemployment legislation to their maximum financial benefit, public safety workers are able to bypass some of the mechanisms of the Public Safety Retirement plan that are in place to ensure the fund's sustainability.

Three service credit provisions characterize the Public Safety Retirement plan:

1. Employees are given 2.5 percent retirement credit for each of their first 20 years of service

2. Employees are given 2 percent for each of their twenty-first through thirtieth years of service
3. Employees receive no retirement credit for working in years 31 and beyond.

Current reemployment provisions allow public safety retirees to take full advantage of the exceptional benefit of provision one while rendering the other two provisions inoperative. (Provisions two and three help ensure the sustainability of provision one's benefit.) After receiving 2.5 percent for their first 20 years of work, employees retire and then return to work for an indefinite number of years. The plan was established, in part, to provide the most benefit to public safety officers working in high-risk, burnout positions during the first part of their careers. Our analysis shows, however, that many managers are the public safety employees who are retiring and rehiring after 20 years of service.

Receiving both a pension and a salary almost always provides a significantly higher income to an individual than does staying for 10 more years earning credit at only 2 percent annually. Rehired retirees experience no financial disincentive for working beyond 30 years. In fact, the opposite is true, because, as will be discussed in Chapter III, as the contribution rate goes up, the higher rate goes to the rehired retiree's 401(k). The actuary commented on this topic of maneuvering through Public Safety Retirement System as follows:

> *We wanted to comment on the contradictory nature of the plan design in the Public Safety and Firefighter Systems and the return to work rules. Both of these systems have a maximum amount of service that is considered in the determination of the members' benefits (30 years). The reason for this design is to encourage retirement when this threshold is met. Typically this would occur when these members reach their mid 50's. The idea behind the plan design is that the employer would prefer not to have front line Public Safety personnel or Firefighters working into their late 50's and early 60's. Now it is certainly debatable whether this concept still holds true, but we think it is odd to have a plan design that encourages members to retire when they reach 30 years of service but then allow such employees to be rehired and continue to work many years beyond that threshold.*

Of the 832 public safety retirees who rehired between 1995 and 2008, 698 have been reemployed between 1 and 10 years, and at least 134 of them have been reemployed for more than 10 years after retiring with 20 years of service. Many, if not all, of those 134 individuals would have been incentivized into retirement at around 30 total years of service had the plan's provisions not been invalidated by post-retirement re-employment incentives.

Post-Retirement Reemployment Is More Restrictive in Other States

Other states do not allow full-time retirees to earn a salary, pension, and 401(k) contribution for as long as they remain reemployed.

Many other western states have more restrictions on who has the right to return to work and continue to draw their pension, most require a complete break in service or set limits on the amount of time or salary that can be earned after returning to work. None allow retirees to return to full-time employment immediately, without a break in service, and earn a full pension, a salary, and a 401(k) contribution for as long as they remain reemployed. URS' actuary confirms that other states are not as lenient as Utah. In 2006, URS' actuary wrote the following to URS during our 2006 Audit:

> Utah's statutes are the most liberal and generous of most other states. Allowing retired members to return to full-time employment with a different covered employer the day after retirement with no suspension of retirement benefits is unique, expensive, and particularly susceptible to abuse.

Some states have become more proactive in trying to stop post-retirement reemployment. They have found that post-retirement reemployment costs the retirement system, and they require employers to continue making contributions to the retirement system.

Other States Are Not as Lenient as Utah

None of the surrounding western states allow permanent full-time reemployment immediately after retirement.

Most surrounding western states either do not allow an employee to return permanently to work full-time and keep their retirement benefits while earning a full-time salary, or they require a complete break in service before returning. Although each has a different time requirement, none of these surrounding states allows permanent, full-time reemployment immediately after retirement. Figure 2.7 shows the basic restrictions in surrounding western states.

Figure 2.7 Surrounding Western States Are More Restrictive than Utah. Surrounding western states allow some post-retirement reemployment with conditions.

State	Post-retirement Reemployment Basic Restrictions
Arizona	All employers in the Retirement System are considered as one, so the retirement is cancelled if retirees return to work full-time. Retirees can only work 19 total weeks each calendar year. If they return full-time, their pension is suspended.
Colorado	Retirees cannot return to work full-time and continue to receive their pension. Retirees can only work for 110 days per calendar year. If they work full-time, their pension is suspended.
Idaho	All employers are viewed as one. 90-day break in service required.
Nevada	If a retiree returns to work in a full-time position, the retirement benefit is suspended, the member is reenrolled in the retirement system, and they earn new service credit. Those that return to work part-time must wait 90 days and cannot earn more than 50 percent of the salary of the average member in the system. Retirees can return to critical needs or hard to fill positions.
New Mexico	Requires a 90-day waiting period. If retirees return before 90 days, their pension is suspended.
Oregon	Retirees can only work up to 1,039 hours in a calendar year (1/2 time.) If retirees exceed the 1,039 hour limit, they are automatically reemployed and return to active status in the retirement system.
Washington	Retirees cannot return to work full-time and keep their pension. Retirees can only work up to 867 hours per year and keep their pension. If they work more than that during a calendar year, the pension is suspended. Pension can continue if they are over 65 years of age.
Wyoming	Requires a complete one month break in service. If an employer hires a retiree, the employer must pay a fee to the retirement system equal to both the member and employer's contributions required by law.
Utah	Since all departments in state government, districts, and public employers are considered separate employers, retirees can immediately return full-time and collect a pension and a salary simultaneously.

Most states do not allow retirees to return to work full-time after retirement and to continue to collect their pension. Most require a complete break in service. New Mexico has a 90-day break in service requirement, which means that a retiree must work neither part-time nor full-time during that break in service in order to be eligible for reemployment. In Arizona, a retiree must wait 12 months from the date of retirement before being reemployed full-time.

Other States Are Aggressively Pursuing Double Dippers

The executive director of the South Dakota Retirement System has taken a proactive role in retire-rehire because it is costing the retirement system. South Dakota statute requires employers to pay the retirement system the contribution rate for all rehired retirees.

The Colorado retirement office has also taken a proactive role in watching for those who retire and return to work full-time. They have hired three people to form a compliance team to monitor people who have retired and are rehired. They have the ability to get W-2 forms and monitor what people are doing. The Colorado retirement office thinks it is their responsibility to monitor and look at anomalies. The compliance team works on the employer contribution team.

Similarly in New Mexico, beginning in January 2007, Public Employees Retirement Association (PERA) affiliates who reemploy PERA retirees will be responsible for paying both the employee and employer contribution amounts on salaries earned by the reemployed retirees. The decision to require employers to pay the full cost of rehiring retirees was made after PERA's actuary reviewed data on the impact of retirees returning to work and receiving both a pension and a salary. The actuarial study determined that payment of the combined employee and employer contribution rates would cover the full actuarial cost of retirees returning to work. The only retirees who are excluded from the provisions of retirees returning to work are chiefs of police, undersheriffs, and retirees hired to work for the legislature during legislative sessions.

Recommendations

1. We recommend the Legislature eliminate the current post-retirement reemployment provisions and implement the following steps:
   - Suspend the pension for those who return to work full-time,
   - Allow retirees to return to active membership in the retirement system and continue to earn service credits, and
   - Resume pension payments when the member ultimately retires.

2. We recommend that if the Legislature does not implement Recommendation 1, they prohibit any work, inclusive of part-time and contract work, from qualifying as part of the six-month waiting period to return to full-time employment.

Chapter III
Defined Contribution for Rehired Retirees Is Excessive

Chapter II showed the actuarial impact and future projections of the lost contributions to the URS fund. In this chapter, we provide additional information showing the actual amounts paid to the 401(k)s of rehired retirees. In 2008, employers contributed $14.6 million to reemployed retirees 401(k)s. Of the $14.6 million, the state paid $10.6 million, and local government paid $4 million. The Legislature should determine what amount, if any, should be contributed to a reemployed retiree's 401(k). Additionally, URS should better monitor, analyze, and report on post-retirement reemployment numbers and trends.

In fiscal year 2010, the State of Utah made contributions of 15.72 percent of salary for reemployed state and public education retirees and 30.18 percent of salary for reemployed public safety retirees to their personal 401(k)s. Other public employers made contributions ranging from 11.66 to 39.39 percent of salary to their reemployed retirees' 401(k)s. We could not find one other state that provides this benefit to reemployed retirees. Eliminating or reducing the required contribution rate could reduce the cost and inequity because the 401(k) rates are large and vary significantly. The 401(k) benefit is in addition to the lifetime pension and salary reemployed retirees collect when they return to work, as discussed in Chapter II.

We could not find one other state that provides this generous 401(k) benefit to reemployed retirees.

The Legislature could require that employer contributions go to URS; this would have a long-term effect of lowering the Defined Benefit (DB) contribution rate of employers. In this chapter, we discuss three issues that will provide assistance to the Legislature as they review the statutory 401(k) requirement:

- Eliminating the 401(k) requirement would provide a savings to employers.

- The provision is a financial burden to URS because it diverts employer contributions away from the DB plan that funds retirement for all public employees.

Eliminating the 401(k) contribution requirement would result in savings.

- If the Legislature wishes to continue the 401(k) contribution, a more reasonable rate should be established.

The next section will provide a short background on the history of the Legislative requirement.

Statute Sets 401(k) Contribution Rate for Rehired Retirees

Current statutory language requires employers to contribute to a DC account for rehired retirees. *Utah Code* 49-11-504 (8) reads:

Current statute requires employers to make contributions to reemployed retirees' 401(k)s in the same percentage as they would have contributed to the DB plan.

> If a participating employer hires a nonexempt retiree who may not earn additional service credit under this section, the participating employer shall contribute **the same percentage** of a retiree's salary that the participating employer would have been required to contribute if the retiree were an active member, up to the amount allowed by federal law. (emphasis added)

Regardless of whether employers use URS's 401(k) plan, they still have to contribute. Statute allows employers to use URS' 401(k) plan or go outside of URS to a private plan.

The requirement to contribute the same percentage of a retiree's salary into their personal 401(k) as they would have contributed if the retiree were a member of the retirement system, was put into statute in 2000. From 1995 to 2000, there was no prescribed amount for the 401(k) contribution rate, and the total contributions were minor. The majority of employers contributed 1.5 percent of rehired retirees' salaries to their 401(k)s. Only a few employers contributed a larger percentage to some of the retirees they reemployed.

The statutory provision requiring the same percentage was put into statute by House Bill 272 on the last day of the 2000 General Session. There was little discussion on the fiscal impact of the change. The information presented stated there would be no fiscal impact because of the change. The argument presented for requiring employers to give reemployed retirees a 401(k) was that it was fair. Prior to the bills' passage, some employers paid it to some reemployed retirees, while others did not. Legal counsel told us the change was driven by members who were not getting the 401(k) contribution. Therefore, the legislation corrected the fairness issues, and all employers were required to make a 401(k) contribution for full-time rehired retirees.

In recent years, the arguments to keep this major benefit are that it is a recruiting tool, it supplements low salaries, and it allows agencies to retain high-value or experienced employees.

However, it appears that new fairness and inequity issues have arisen because rates vary so greatly as will be discussed later in the chapter. Also, the change has driven people to retire and rehire at ever increasing rates, in part, to take advantage of this lucrative benefit.

DC Contributions Given to Rehired Retirees Are Expensive and Unique to Utah

The requirement that employers make contributions directly to a retiree's 401(k) is unique to Utah and is expensive to the retirement system. No other state provides contributions to DC accounts for reemployed retirees, and many private companies have eliminated or suspended 401(k) contributions for employees. If the current trend of reemploying retirees continues, we estimate the annual 401(k) contribution will increase to $91 million by 2018. Immediate savings would be $14.6 million annually.

Potential Cost Savings Are Sizeable

The total amount contributed to reemployed retirees' 401(k)s has increased each year, and we project that it will continue to increase. Eliminating or reducing the requirement would provide the savings shown in Figure 3.1.

Figure 3.1 Potential Savings by Eliminating the 401(k) Requirement.

	State of Utah	Other Employers	Total Amount in 2008
Amount paid in 2008 based on contribution rates of 9.68% - 39.06%. Total amount would be saved if the requirement were eliminated.	$ 10,629,779	$ 4,048,368	$ 14,678,147

Savings of $14.6 million are possible.

In 2008, the total amount paid to rehired retirees' 401(k)s was $14.6 million. The contribution rates in 2008 ranged from 9.68 to

39.06 percent of salary. Eliminating the 401(k) requirement would provide $14.6 million savings to all employers, as shown in Figure 3.1.

If the Legislature does not eliminate the 401(k) requirement, we project the contributions will increase dramatically in the next 10 years as we will show in the next section.

If no statutory change is made, auditors project that 401(k) contributions may increase to $91 million in 10 years.

Contributions Projected to Increase Dramatically in 10 Years

If the current trend continues for all URS employers, we estimate the 401(k) contribution amount paid to rehired retirees in 2018 will be $91 million. The State of Utah's share of the projected $91 million would be $70.2 million. With the bubble of people eligible to retire in the next few years and the opportunity to return to work, the amounts could be even higher.

Department of Human Resources Management (DHRM) projections show that almost 12,000 current state employees are eligible to retire within the next five years. Of these 12,000, DHRM estimates that about 2,900, or 24.5 percent will retire. Their projections show increasing retirements over the next five years, and our data also shows overall increasing trends for post-retirement reemployment. Based on these trends, costs for the post-retirement reemployment program will continue to increase.

In addition to current employees who could retire and return to work, a review of URS records shows that there are over 40,000 active retirees. Any one of these retirees who returns to work for 20 or more hours per week is entitled to the 401(k) contribution. During our review, we saw several cases where retirees returned to work after having been retired 5 to 10 years, or more.

No Other State Provides Such a Rich Benefit

If no statutory change is made, 401(k) contributions are projected to increase to $91 million in 10 years.

Making such large contributions to the 401(k)s of reemployed retirees is unique compared to other states. URS, their actuary, and the National Association of State Retirement Systems were not aware of another state that follows this practice. In 2006, URS' actuary said that Utah's practice of making defined contribution plan contributions for rehired retirees was unusual.

Although 401(k) contributions are common in private business, the benefit is not as rich as the contribution to Utah's public-sector-reemployed retirees. Private companies typically provide much smaller contributions to current employees, sometimes in lieu of a pension. According to URS' actuary, the typical 401(k) plan is a match program that provides up to 3 percent, if the employee contributes the same percentage into his or her salary into a 401(k) plan. Some private plans only provide half of what the employee contributes, up to 3 percent. Utah's fiscal year 2010 contribution rates that range from 11.66 to 39.39 percent of salary are staggering compared to the typical plan in private business. Furthermore, Utah's plan does not require a match, which means that rehired retirees are able to earn large amounts without any personal contributions.

Utah's 401(k) contribution rates of 11.66 to 39.39 percent are staggeringly high compared to private companies.

Statutory DC Contribution Given to Rehired Retirees Is Expensive and Growing

The number of people retiring and returning to work has increased dramatically from 1995, the first year, employees were allowed to earn a salary and pension simultaneously. In 2008, public employers paid 401(k) contributions totaling over $14.6 million to 2,166 reemployed retirees of the URS system. Of the $14.6 million, the State of Utah paid $10 million, or 73 percent of the total, to retirees reemployed in public education and state departments. Individual contributions vary widely. The average contribution in 2008 was about $6,800, and the highest rehired retiree received almost $35,000 that year. We believe the current reemployment policies encourage early retirement. In other words, some employees are retiring earlier than they would have in order to take the opportunity to rehire and receive a salary and pension, as discussed in Chapter II, and the generous 401(k) contribution. URS' actuaries have said there is a cost to the rehire program.

The Number of People Retiring and Returning to Work Has Increased

Contributions to rehired retirees 401(k)s have increased dramatically each year from almost $96,000 in 1995 to more than $14.6 million in 2008. During the same period, participation increased from 71 to 2,166 rehired retirees. The total amount paid to rehired retirees since 1995 is $60.9 million. Figure 3.2 shows the growth in amounts paid and the number of rehired retirees that have benefitted.

Figure 3.2 Total 401(k) Contributions Paid to Rehired Retirees (1995-2008). This chart shows that 401(k) contributions increased from almost $96,000 in 1995 to more than $14.6 million in 2008. The number of participants increased from 71 to 2,166.

Year	Total 401(k) Contributions Paid	Total 401(k) Contribution Recipients	*New 401(k) Contribution Recipients*	Highest Annual 401(k) By Single Rehired Retiree	Average Annual 401(k) Per Recipient*
1995	$ 95,757	71	*47*	$ 12,763	$ 1,349
1996	149,636	101	*36*	14,772	1,482
1997	235,868	125	*40*	15,491	1,887
1998	344,911	162	*47*	17,063	2,129
1999	481,073	217	*75*	16,248	2,217
2000	1,146,605	327	*131*	21,740	3,506
2001	1,983,587	549	*242*	22,088	3,613
2002	2,870,559	806	*252*	25,510	3,561
2003	3,839,065	962	*246*	20,324	3,991
2004	5,489,087	1,072	*237*	23,268	5,120
2005	7,226,587	1,319	*327*	24,323	5,479
2006	9,756,633	1,712	*504*	26,349	5,699
2007	12,680,683	2,016	*454*	29,031	6,290
2008	14,680,051	2,166	*386*	34,844	6,777
Total	**$ 60,980,102**				
Change from '95 to '08	**15,231%**	**2,951%**			**403%**
Avg. Annual Change	**47%**	**30%**	***18%***	**8%**	**13%**

**Data was unavailable to properly compute weighted averages, which we believe would be somewhat higher.*

Figure 3.2 shows the historical 401(k) contributions made for reemployed retirees. Contribution amounts have grown an average of 47 percent each year, while the number of participants in the program has grown an average of 30 percent per year.

When post-retirement reemployment was first allowed in 1995, the number of rehired retirees was small and the amount paid was limited. Most of the rehired retirees received 1.5 percent of their salary, which corresponded to the DC amount paid to all employees in the Public Employees' Noncontributory Retirement System. A limited number of rehired retirees received contributions higher than 1.5 percent because a few employers paid a higher contribution amount to a few rehired retirees.

The total amount of contributions started to increase beginning in 2000 when statute required a contribution rate similar to the DB plan. The amounts have increased each year as more and more people have taken advantage of the opportunity to retire and rehire. In fact, more than 72 percent of the $61 million in total contributions has been paid out in the last four years (2005-2008).

$44 million (72 percent) of the total $61 million 401(k) contributions has been paid out in the last four years (2005-2008).

Note that Figure 3.2 does not include the $1.1 million paid to 71 rehired retirees' 457 accounts, maintained by URS. Also, the figure does not include those employers that have DC accounts outside of URS. As previously mentioned. ***Utah Code*** 49-11-504 allows employers to contribute to URS or to other DC plans. About 110 employers do not have 401(k)s accounts with URS; they have them with other companies.

The italicized column in Figure 3.2 shows the number of rehired retirees who began receiving 401(k) contributions each year. Between 2000 and 2008, 2,779 rehired retirees began receiving 401(k) contributions. In 2008 alone, 2,166 individuals received 401(k) contributions. Many rehired retirees have worked continuously for multiple years after retirement.

Rehired Retirees in Public Education and The State Receive a Major Portion of the Funds

Since 1995, employers have paid $60.9 million in 401(k) contributions. Sixty-nine percent of the amount was paid by the state for public education and state employees. Figure 3.3 shows total 401(k) contributions from 1995 to 2008 and detail for 2008.

Figure 3.3 401(k) Amounts Paid to Rehired Retirees by Employee Category, Total Paid from 1995 to 2008 and 2008 Alone. This data only contains the 401(k) contributions. An additional $1.1 million in 457 contributions is not included in this figure.

	401(k) Contributions 1995-2008		401(k) Contributions 2008		Recipients* in 2008		Average** Contribution in 2008
State of Utah:							
Public Education	$ 25,243,411	*41.4%*	$ 6,981,749	*47.6%*	1,211	*55.9%*	$ 5,765
Public Safety	5,968,808	*9.8%*	1,430,934	*9.7%*	115	*5.3%*	12,443
Other State and Higher Ed	10,953,849	*18.0%*	2,135,380	*14.5%*	305	*14.1%*	7,001
Subtotal	$ 42,166,068	*69.1%*	$ 10,548,062	*71.9%*	1,631	*75.3%*	$ 6,467
Local Gov't & Other:							
Public Safety	$ 8,458,554	*13.9%*	$ 2,129,484	*14.5%*	207	*9.6%*	$ 10,287
Firefighters	856,578	*1.4%*	198,479	*1.4%*	30	*1.4%*	6,616
Other Employers	9,498,902	*15.6%*	1,804,025	*12.3%*	298	*13.8%*	6,054
Subtotal	$ 18,814,034	*30.9%*	$ 4,131,989	*28.1%*	535	*24.7%*	$ 7,723
Grand Total	$ 60,980,102	*100.0%*	$ 14,680,051	*100.0%*	2,166*	*100.0%*	$ 6,777

**2,166 represents the sum of the number of recipients who received 401(k) contributions in each category. Of these, 62 worked for more than one employer during the year, so the number of unique recipients is 2,104. 2,166 is used in the report because the data did not allow calculations based on the number of unique recipients.*
***Data was unavailable to compute the proper weighted averages, which we believe are somewhat higher.*

Figure 3.3 shows that almost $61 million has been contributed by public employers to reemployed retirees' 401(k) accounts instead of to the DB system. The state and public education paid 69 percent of the total 401(k) contributions, or $42 million. The remaining 31 percent was paid by other public employers. Figure 3.3 also shows that 75 percent of the 401(k) recipients in 2008 were reemployed by public education and the state; the remaining 25 percent were reemployed by local government and other public employers.

Although Public Safety makes up only a small percentage of the entire URS system, it participates in and benefits from post-retirement reemployment at a disproportionately higher rate.

Public Safety's reemployed retirees account for just under 15 percent of the total rehired retirees who received 401(k) contributions in 2008. However, public safety received more than 24 percent of the total 401(k) contributions paid to rehired retirees last year. The disparity is further emphasized by the fact that the public safety retirement system's total membership (retired and unretired members, alike) comprises only 7 percent of URS' total membership. In other words, public safety makes up only a small percentage of the entire URS system, but it participates in and benefits from post-retirement reemployment at a disproportionately higher rate. As will be discussed in the final section of this chapter, the public safety contribution rate is the reason that the average benefit received by each of its employees is so much larger than that paid to other employees.

Large DC Contributions Create a Generous Incentive to Retire and Return to Work

A review of all 401(k) contributions in 2008 shows the average contribution was about $6,800. Some contributions were as high as $35,000 per year. Public safety contribution rates are double the rates of the public employee rates mainly because public safety personnel can receive full retirement benefits with 20 years of service regardless of retirement age, while individuals in the public employee retirement system must have 30 years of service to receive full benefits. Higher contribution rates for the public safety system are necessary for the system to collect sufficient funds, in a shorter time period of time, to fund a longer retirement period.

URS Actuary Confirms that Utah's Reemployment Provisions Make the Pension Plan More Expensive

According to URS' actuary, allowing employees to draw their retirement benefits while continuing to work makes a plan much more expensive. URS' actuaries have said there is a cost to the rehire program if the program changes retirement patterns and employees retire earlier than they would have in the absence of the program. In fact, they say this is why many systems have put in waiting periods or other restrictions on retirees returning to work—they want to eliminate or reduce these costs. Also, by providing a 401(k) contribution to the employee, it makes the system more expensive because the employer is not contributing to the retirement system but to the rehired retiree.

If an employee retires immediately upon becoming eligible for an unreduced retirement benefit, and then returns to work post-retired, the system must pay the retiree longer because the pension is a lifetime pension, it is not time limited. According to URS' actuary,

> If employees can retire earlier than they would have, and can receive their pension while continuing to work in covered employment, then there is a cost. It is true that an employee who retires early receives a smaller retirement benefit, because he will have less service and usually a smaller final average salary, but he will receive the benefits over a longer period of time on average. In most cases, once the employee is eligible for an unreduced retirement benefit, earlier retirement is more expensive for the

system than later retirement. In addition, in most systems, the rehired retiree does not contribute to the system, and in many cases the employer does not contribute either.

The actuary continues by stating

> Although the employer contributes to the 401(k), the retirement plan receives no contributions. . . Allowing employees to draw their retirement benefits while continuing to work, without putting in any restrictions, makes a plan much more expensive.
>
> In the next section we will discuss the effect of this.

Legislature Should Reexamine Rehirees' 401(k) Rates

The 401(k) contribution rate does not need to be the same as the actuarially determined contribution rate for the DB plan.

Currently, the contribution rate for reemployed retirees' 401(k)s is the same as the DB contribution rate, as required by statute. However, there is no reason the 401(k) amount needs to be the same as the DB contribution rate; no rational relationship exists between the two rates. DB contribution rates are established by an actuary based on a variety of factors, such as funding status and actuarial experience, to keep the DB fund actuarially sound.

The Legislature may wish to reconsider what percentage, if any, the 401(k) contribution rate should be.

While an employer's actuarial funding level is a reasonable way to determine DB contributions, it may not be the best way to establish public policy regarding the amount to be paid to reemployed retirees' 401(k)s. We recommend the Legislature reconsider what percentage or amount, if any, should be paid to reemployed retirees; the amount should not be tied to the contribution rates for the DB plan.

DB Contribution Rates Are Based on Funding Status and Actuarial Experience

Funding requirements vary widely by fund and employer. Also, contribution rates increased from fiscal year 2009 to fiscal year 2010 and, according to URS' actuary, are expected to increase for the next four years. DB contribution rates are shown in Figure 3.4.

Figure 3.4 DB Contribution Rates for Fiscal Years 2010 and 2011 by Retirement System and Fund. DB contribution rates are set by an actuary based on a variety of factors. The contribution rate for the reemployed retirees' 401(k) is the same as the DB contribution rate, as required by statute.

Retirement System	Employer	Contribution Rates 2009-2010	Preliminary Contribution Rates 2010-2011
Public Employees	State and Schools	15.72%	17.82%
	Local government	11.66%	13.37%
Public Safety	State	30.18%	32.48%
	All others	23.07 - 39.39%	25.83 - 39.39%
Firefighters		9.68 - 13.49%	14.81 - 16.13%

The contribution rates shown for the Firefighters system are net of fire insurance provisions.
Detailed contribution rates by system and employer is available in Appendix G.

For fiscal year 2010, the state pays two contribution rates 15.72 percent of salary for public and school employees, and 30.18 percent for public safety employees. Although the rate for public and school employees is usually shown as 14.22 percent, that rate does not include the additional 1.5 percent 401(k) that current employees receive. The 15.72 rate shown in Figure 3.4 includes both the 14.22 percent DB and 1.50 percent 401(k). Public Safety employees do not receive the additional 1.5 percent.

There are multiple contribution rates for local government and other employers because some cities have their own rates depending on when they joined the URS system and the funding level when they joined.

Although there are valid reasons for differing contribution rates in the DB system, using these rates for the 401(k) contribution for rehired retirees creates inequities. For example, in fiscal year 2010, a reemployed retiree in the Public Safety Retirement System in Bountiful City would receive a 401(k) contribution of 23.07, or 26.82 percent of salary, depending on the cost-of-living allowance (COLA) chosen. In contrast, a reemployed retiree in the Public Safety Retirement System in Salt Lake City would receive a 401(k) contribution of 35.71, or 39.39 percent of salary, depending on the COLA chosen.

Some reemployed retirees will be opposed to eliminating or reducing the 401(k) contribution because they now consider it an entitlement, some having received the benefit since 1995. However, we believe the Legislature should reevaluate the issue.

URS Should Monitor Future Post-Retirement Reemployment

Currently, URS does not fully monitor post-retirement reemployment. Previously, in the 2006 audit, URS took the position that the number of post-retired employees was relatively small and, therefore, presented no material impact on contribution rates. From the analyses presented in this audit, it is clear that there are more than a significant number of rehired retirees; the population is growing at an increasing rate, and costs are very high.

Therefore, we recommend that URS monitor post-retirement reemployment. Further, URS should maintain the data in a way that is consistent with any legislative action taken in connection with this report. This tracking is essential and we believe there were no accurate estimates about costs and participation of reemployed retirees until we compiled the data in this audit. URS is the logical repository for this data because it receives payroll data from all 444 public employers. We are joined in this recommendation by the URS's actuary, who wrote in 2006:

> We would recommend, however, that consideration be given to tracking reemployment within URS. Currently, the system has no way to determine an accurate number of such reemployed retirees or to monitor trends. If such data were kept, it would be possible for various analyses to be performed and for trends to be observed.

Working with existing URS data, our audit team spent several months piecing together the records regarding post-retirement rehires. URS does not collect data on whether retirees are still currently employed. We decided that we could determine full-time rehires by looking at those reemployed retirees received a 401(k) contribution. Since URS does not collect data on currently employed part-time reemployed retirees so we could not include them in our review. We provided the data to the actuary so they could do their analysis.

We have been concerned about the program since 2003 and have shared our concerns with URS. However, URS has not tracked it or asked for an actuarial analysis.

The difficulty of getting information from URS is partly because no control is in place to ensure that rehiring employers submit the rehire form for retirees who return to work. We acknowledge the difficulty URS faces in ensuring that employers file the rehire forms. However, it is crucial that the Legislature have a source of complete, current, and accurate data upon which they can base policy decisions. Until our audit, neither the Legislature, nor the actuary, nor URS had any aggregate or historical information concerning postretirement reemployment.

Recommendations

1. We recommend the Legislature consider amending the post-retirement reemployment statute to require employers to make DB contributions to URS' defined benefit plan instead of making contributions to the personal 401(k) accounts of reemployed retirees.

2. If the Legislature chooses not to amend the post retirement reemployment statute discussed in Recommendation 1, we recommend the Legislature eliminate the 401(k) requirement for reemployed retirees.

3. We recommend the Legislature require URS to monitor, track, and report on any future post-retirement reemployment.

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Chapter IV
Part-Time Employees Who Go Full-Time Inflate Their Retirement Benefits

The Legislature should consider whether employees who go from part-time status to full-time status at the end of their career should be allowed to retire with the same retirement service credits as an employee who works full-time their entire career. Current statutory provisions facilitate part-time employees inflating their monthly retirement benefits by simply going full-time shortly before retirement. Employees who work part-time, but go full-time shortly before retirement receive the same benefits at retirement as if they worked full-time their entire careers. Since the state does not prorate years of service for employees that work part-time and then go full-time, some part-time employees have significantly increased their retirement benefits by working part-time for many years and working full-time for a few years before retirement.

Current statutory provisions can facilitate part-time employees inflating their monthly retirement benefits by simply going full-time shortly before retirement.

Utah Code currently allows part-time employees to accrue retirement years of service credits at the same rate as full-time employees, which can be a high cost benefit for employees who work both part- and full-time during their careers. Because retirement years of service are not prorated for employees who go between part- and full-time statuses, some part-time employees have inflated their retirement benefits by going full-time shortly before retirement. A means of addressing this inequity would be to prorate years of service for employees that work part-time, and then go full-time at the end of their careers.

We are concerned with employees that work for a number of years part-time, but then go full-time towards the tail end of their careers and capture a retirement benefit equivalent to someone who worked full-time throughout their careers.

We recognize that prorating retirement years of service for employees that work part-time and then go full-time at the end of their careers could affect employee morale, retention, and recruiting. While a policy change could have some negative effects, we believe prorating retirement years of service for employees who work part-time and then go full-time at the end of their careers would reduce these high cost benefits and inequity because these employees would no longer accumulate years of service at the same rate as full-time employees for part-time work.

Utah Code Allows Part-Time Employees To Receive Full Years of Retirement Credits

Current statutory language allows part-time employees to earn retirement years of service credits equivalent to those of full-time employees. ***Utah Code*** 49-13-102(4)(a) pertains to public employees:

> "Regular full-time employee" means an employee whose term of employment for a participating employer contemplates continued employment during a fiscal or calendar year and whose employment normally requires an average of 20 hours or more per week, except as modified by the board, and who receives benefits normally provided by the participating employer.

Statute defines a regular full-time employee as anyone whose public employment normally requires 20 hours or more per week and teachers who teach at least half-time.

Statute also allows part-time teachers and classified school employees to accrue the same years of service credits as full-time employees. ***Utah Code*** 49-13-102(4)(b)(i) and (ii) pertains to public education employees:

> (b) "Regular full-time employee" includes:
>
> > (i) A teacher whose term of employment for a participating employer contemplates continued employment during a school year and who teaches half-time or more;
> >
> > (ii) A classified school employee whose employment normally requires an average of 20 hours per week or more for a participating employer, regardless of benefits provided.

As statute defines a regular full-time employee, it also defines years of service credit. ***Utah Code*** 49-13-102 (6)(a) through (c) defines a year of service credit for regular full-time employees as consisting of 12 full months for non-educational employees or no less than eight months for an employee of an educational institution. The URS board is also given the statutory authority to determine full-time status in any given year. Normally 20 hours per week or half-time employment is the minimum to accrue a full year of retirement service credits.

Years of Service Factor Into the Determination of Retirement Benefits

If a part-time employee worked for 30 years at 20 hours per week or 0.50 FTE (full-time equivalent), that employee would earn the same amount of retirement years of service credits as someone who worked for 30 years full-time at 40 hours per week. The current retirement formula addresses employees that remain part-time throughout their careers. Employees that work part-time throughout their careers retire with a part-time salary and the final average salary is one of the three multiplication factors used to determine retirement benefits. So these employees do not need their retirement years of service prorated. The current calculation for public employees' retirement benefits is:

Employees that work part-time throughout their careers retire with a part-time salary and final average salary is one of the three multiplication factors used to determine retirement benefits. So these employees do not need their retirement years of service prorated.

Number of Years of Service x 2.00 percent x FAS*

* Final Average Salary (FAS) = Highest three years' earnings converted to a monthly average. Yearly salary increases are limited to 10 percent plus a cost of living adjustment determined by a consumer price index.

The current retirement benefit formula can be manipulated by employees that work part-time and then go full-time shortly before retirement as will be discussed in the following section.

Some Retired Employees Have Inflated Their Retirement Benefits

Since the state does not prorate years of service for employees that work part-time and then go full-time, some part-time employees have significantly increased their retirement benefits by working part-time for many years and working full-time for a few years before retirement. This results in the employee qualifying for retirement benefits as if he or she had worked full-time his or her entire career. As previously stated, the calculation of retirement benefits is based on the average of an employee's three highest years of earnings, so part-time employees who go full-time during the last years of their employment can receive a monthly benefit at retirement that would be similar to an employee who worked full-time their entire career.

Some part-time employees have significantly increased their retirement benefits by working part-time for many years and working full-time for a few years before retirement.

Utah Code 49-13-102(2) allows this because retirement benefits are determined by averaging the highest three years of annual compensation. The only restriction on this calculation is found in *Utah Code* 49-13-102(2)(a) and (b), which stipulates that the percentage increase in annual compensation in any of the three highest years used cannot exceed 10 percent of the previous year's compensation (unless the employee was transferred or promoted). Part-time employees can increase their final average salary by simply going full-time before retirement without ever being transferred or promoted. However, prorating years of service for employees who go from part- to full-time status at the end of their careers would, in effect, nullify the impact of full-time retirement benefits being given to part-time employees.

Review of Recent Retirees Shows Some Instances of Final Salary Inflation

Because years of service are not prorated for employee's part-time work when they went full-time at the end of their careers, some employees were able to inflate their final average salary which inflated their retirement benefits.

Our review of URS and Computer-Aided Credentials of Teachers in Utah Schools (CACTUS) records found several retirees who inflated their salaries by going from part-time to full-time employment at the end of their careers. Because years of service were not prorated for the employees' part-time work when they went full-time at the end of their careers, these employees were able to inflate their final average salary which inflated their retirement benefits.

We sampled individuals from a URS report of individuals who exceeded a 10 percent increase in salary within the final years of their career service and retired in the last five years. CACTUS data was added to our analysis after initial sampling identified a significant number of public education employees. In most cases, we could ascertain FTE status no earlier than 1984 because of limitations in URS and CACTUS data. Five examples of individuals who went full-time during the final years of their careers are shown in Figure 4.1.

Our review of sampled retirees showed that part-time employees can abuse the system. While the problem does not appear to be widespread, because of data limitations, the extent of the problem is unclear.

Because of the data limitations, we only provide a few examples to illustrate our point, but further analysis would identify more part-time employees inflating their retirement benefits. It is important to note here that our review of sampled retirees did not indicate to us that this is a widespread problem, but the extent of the problem is unclear. While we were unable to ascertain the full effect of this problem, the data did show that the system can be abused.

Figure 4.1. Examples of Recently Retired Employees Who Worked Part-Time for Most of Their Careers and Went Full-Time Shortly Before Retirement. The system allows part-time employees to generate the same amount of annual service credits as full-time employees.

Employee	URS Years of Service	# of Years Worked Part-Time	# of Years Worked Full-Time	FTE Status Preceding Retirement
A	34	20	2	Last 2 years full-time
B	19	14	3	Last 2 years full-time
C	30	13	4	Last 4 years full-time
D	30	13	5	Last 3 years full-time
E	32	23	9	Last 4 years full-time

Note: Because of data limitations, we were only able to ascertain FTE status for sampled employees for most of their careers. Thus, URS years of service will not match CACTUS data on number of years worked part-time and full-time.

Some recently retired employees were part-time for most of their careers, but then went full-time for a few years before retirement.

Figure 4.1 shows that some employees worked most of their careers part-time, but then went full-time shortly before retiring. By going full-time, these employees were able to increase their final average salary and significantly increase their retirement benefits. All of the employees illustrated in Figure 4.1 obtained the same amount of retirement years of service credits for their part-time work that an individual in a full-time capacity would have received.

Employee E From Figure 4.1 Shows How a Part-Time Employee Can Manipulate the System. The following bullets illustrate how Employee E from Figure 4.3, a part-time employee accruing full years of service credits, may have manipulated the system.

One recent retiree clearly inflated their final average salary by simply going full-time prior to retirement.

- In reviewing URS documentation, we identified Employee E who worked 23 consecutive years as a part-time employee and then worked the last 4 years of service as a full-time employee.

- Furthermore, this individual's final average salary was calculated at $50,575. This employee was part-time from 1981 until 2001, and then worked full-time from 2002 until 2005. This individual worked part-time for most of their career, but retired with a benefit equivalent to that of a person who worked full-time their entire career.

- One month after retirement, this employee was rehired in the same school from where this employee retired and worked part-time for six months. After six months, this employee started working full-time and currently receives a pension, salary, and 401(k) contributions as discussed in Chapter III of this report.

To reiterate, if the Legislature decides to prorate years of service for part-time employees that go full-time before retirement, that will in effect nullify the impact of full-time retirement benefits being given to part-time employees.

Retirement Benefit Inflation Is Becoming a National Issue

The need for alternative methods to adequately address retirement benefit inflation was recently highlighted by the Pew Center on the States. The Pew report cites final-salary inflation and years-of-service inflation as two problems being recognized nationwide. The study titled, *Promises with a Price – Public Sector Retirement Benefits*, stated:

Loopholes that allow individuals to inflate their retirement benefits are being identified nationally within retirement systems.

> Auditor reports are full of examples of loopholes within pension systems that allow individuals to inflate the amounts they collect after retirement. But states can close the loopholes and stem possible abuses. . . . States can pull back on the amount of money that goes out in pension benefits without attacking the general principles of a defined benefit plan or the pension benefits on which the average employee relies. . . . In general the way pension benefits are calculated requires that "final salary" be multiplied by a preset formula based on the number of years employed. In several states and local governments, this practice has resulted in employees hiking up their salaries during the last years of their employment by any method allowed.

Prorating retirement annual service credits in relation to the actual time an employee works would eliminate the high benefit that part-time employees are currently accruing. It would also eliminate the practice of some part-time employees "hiking up their salaries during the last years of their employment."

Recommendation

1. We recommend that the Legislature require the Utah Retirement Systems to study and make recommendations to the Legislature regarding ways to prevent part-time employees from inflating their retirement benefits.

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Chapter V
Health Care Premiums for Part-Time Employees Have a Financial Impact

The State of Utah has approximately 700 part-time employees who are currently receiving health care coverage, of which 650 work directly for the state and 50 work for the judicial branch. These part-time state employees pay the same biweekly premiums as full-time state employees. Therefore, the policy question raised in this chapter is whether the Legislature wants to continue to allow for this disproportionate benefit. If the Legislature decided to prorate health care premiums for part-time employees, the state could save approximately $2.6 million annually, but this savings could increase or decrease depending on the prorating schedule chosen by the Legislature.

Part-time state employees eligible for health care coverage pay the same biweekly premiums as full-time state employees, raising the concern of a disproportionate benefit.

Our survey of institutions of higher education and school districts found that public and higher education commonly prorate health care premiums for part-time employees. While the state does not currently prorate health care premiums for part-time employees, the state does prorate some other employee benefits, such as annual, sick, and holiday leave.

The potential $2.6 million in annual savings would be generated by transferring costs from the employer to the part-time employees. Because the prorating schedule chosen by the Legislature could create a significant financial burden for individual part-time employees, the Legislature has a difficult decision to make. Shifting more of the costs of health care premiums to part-time employees could save the state money, but issues could arise relating to employee morale, retention, and recruiting.

Prorating health care premiums for part-time employees could have a significant cost impact on these employees.

Health Care Premiums for Full-Time and Part-Time Employees Are Identical

Part-time state employees are eligible for health care benefits based on an eligibility table adopted by the Department of Human Resource Management (DHRM). Positions in this eligibility table are allocated to appropriate schedules by the executive director of DHRM after

Part-time state employees are generally eligible for benefits at 20 hours per week.

consultation with heads of concerned agencies. Part-time state employees are generally eligible for benefits at 20 hours per week.

As shown in Figure 5.1, part-time employees pay the same premiums as full-time employees. Current medical insurance contributions vary for single, double, and family groups, but an employee's full- or part-time status is not a factor. Advantage Care and Summit Care are the two most widely used medical plans for state employees. For those two plans, the current split between employer-paid and employee-paid premiums is 95 percent to 5 percent, respectively.

Figure 5.1. Fiscal Year 2010 Public Employees Health Program – State of Utah – Medical Insurance Contributions. In terms of medical insurance contributions, no distinction is made between full-time and part-time employees.

Biweekly Medical Contributions			
Plan	**Employer**	**Employee**	**Total**
Preferred Care	**Employer Paid = 73 %**	**Employee Paid = 27 %**	
Single	$ 171.53	$ 62.53	$ 234.06
Double	353.68	128.92	482.60
Family	472.16	172.10	644.26
Advantage Care	**Employer Paid = 95 %**	**Employee Paid = 5 %**	
Single	$ 171.53	$ 9.03	$ 180.56
Double	353.68	18.61	372.29
Family	472.16	24.85	497.01
Summit Care	**Employer Paid = 95 %**	**Employee Paid = 5 %**	
Single	$ 171.53	$ 9.03	$ 180.56
Double	353.68	18.61	372.29
Family	472.16	24.85	497.01

Source: Public Employees Health Programs (PEHP) – FY 2010 Revised PEHP Insurance Rates.

If the Legislature decided to prorate health care premiums for part-time employees, these employees would pay a greater share of health care premiums than full-time employees, resulting in ongoing annual savings to the state.

Figure 5.1 illustrates the biweekly premiums for medical insurance only. Part-time employees also pay the same biweekly premiums as full-time employees for other forms of insurance, such as dental. If the Legislature decided to prorate health care premiums for part-time employees, part-time employees would pay a greater share of health care premiums than full-time employees, resulting in ongoing annual savings for the state. The next section discusses prorating in greater detail.

Part-Time Employees Could Be Required to Pay Prorated Health Care Premiums

If the Legislature decided to prorate health care premiums for part-time employees, choosing which proration schedule to use would be a policy decision that could depend on the savings desired and potential employee retention issues. The state could save up to $2.6 million by prorating health care premiums for part-time employees because these employees would be expected to pay a greater share of their premiums. As mentioned, a precedent exists in prorating benefits because the state does prorate leave benefits for part-time employees.

Prorating health care benefits for part-time employees appears to be the general practice in both higher and public education. As will be discussed in the next section of this chapter, the University of Utah and three sampled school districts all prorate health care premiums for part-time employees, with slight variations.

Legislature Has Choices for Prorating Health Care Premiums

If the Legislature decided to prorate health care premiums for part-time employees, a number of different options could be used. The following examples show two different ways that health care premiums could be prorated. The first, prorating health care premiums based on average full-time equivalent (FTE), would generate about $2.6 million in annual savings. The second, prorating premiums based on an FTE range or scale, would generate about $2.2 million in annual savings.

Prorating health care premiums for part-time state employees based on average FTE could save the state approximately $2.4 million annually.

Prorating Health Care Premiums Based on Average FTE Would Generate About $2.6 Million in Annual Savings. The average full-time equivalent (FTE) for the 650 executive and legislative branch employees who are currently working part-time and receiving health care benefits is 0.64. If the Legislature decided to prorate premiums based on the average FTE of part-time employees, the state would cover the premium costs of the employee's FTE average. Thus, if the average part-time employee is 0.64 of an FTE, these employees would be required to pay 36 percent of the premium costs. Under this prorating model, the state could save approximately $2.4 million annually in health care premiums.

Because of data limitations, part-time employees in the judicial branch were not included. We project an additional $200,000 in savings if they were included.

Specifically, the state currently pays approximately $7.5 million annually in health care premiums for their part-time employees, and under this prorating scenario, the state would be paying $2.4 million less, or $5.1 million annually. These averages include executive and legislative branch part-time employees, but do not include judicial branch employees because of data limitations. However, assuming that the average savings would be similar for the 50 part-time judicial employees, the state can count an additional $200,000 in projected savings, bringing the total annual savings to $2.6 million annually. Average savings include all employees on the Summit Care, Advantage Care, and Preferred Care medical plans and the Preferred Choice dental plan.

The Legislature could decide to have the state cover a greater share of the health care premiums, which would lessen the cost increase to part-time employees but decrease potential savings to the state.

This potential savings to the state of $2.6 million annually would come from increased premiums paid by part-time employees. Under a proration schedule based on FTE, the average part-time employee would be paying approximately $3,650 more per year, which equates to $140 more every two weeks. The Legislature could also consider having the state cover a greater share of health care premiums. Doing so would reduce costs for part-time employees, but it would also decrease potential savings to the state.

Prorating Health Care Premiums by a Range or Scale Based On FTE Would Generate About $2.2 Million Annually. The Legislature could prorate health care premiums under another model by developing a range or scale based on FTE and placing part-time employees in their respective payment ranges. Using the ranges developed by our office, the state could recognize savings of about $2.2 million annually.

Figure 5.2 shows an example of ranges that the Legislature could use and how many part-time state employees would fall into each range. The information shown in Figures 5.2 and 5.3 are for all part-time state employees (executive and legislative branches) who are on the Advantage Care and Summit Care medical plans. It should be noted that 622 of the 650, or 96 percent of these part-time employees receiving medical coverage are on one of these two medical plans. The examples used in Figures 5.2 and 5.3 do not include dental benefits or employees on preferred health care plans. The examples also exclude part-time judicial employees because of data limitations.

Figure 5.2. Current Part-Time State Employees Who Currently Receive Medical Benefits Under Advantage or Summit Care Plans. If the Legislature decided to prorate part-time employees' medical premiums, the state could use a range based on average FTE.

Proration Option Based on Average FTE	Employer-Paid / Employee-Paid Splits	Number of Employees
0.50 and Less FTE	50 / 50 Split	257
0.51 to 0.60 FTE	60 / 40	123
0.61 to 0.70 FTE	70 / 30	68
0.71 to 0.80 FTE	80 / 20	91
0.81 to 0.90 FTE	90 / 10	68
0.91 to 1.00 FTE	95 / 5	15
Total		**622**

If the Legislature decided to prorate health care premiums, they could break health care premiums paid into scales or ranges based on average FTE.

The corresponding split listed in each range is a potential split between employer- and employee-paid medical premiums. As shown in Figure 5.1, the current split between employer- and employee-paid premiums is 95 percent to 5 percent (regardless of full- or part-time status) in the Advantage and Summit Care medical plans. For this range, we took the current split as a starting point and worked backwards to a 90/10 split and then increased the employee-paid portion by 10 percent for each corresponding range. Figure 5.3 shows the potential savings to the state using the ranges and prorating schedule illustrated in Figure 5.2.

The state could recognize an annual savings of about $2.2 million if the Legislature used a prorating schedule such as the one illustrated in Figures 5.2 and 5.3.

Figure 5.3. Current Part-Time State Employees Who Currently Receive Medical Benefits Under Advantage or Summit Care Plans. Using the prorated range illustrated in Figure 5.2, the state could save over $2.2 million annually.

Medical Plan	# of Part-Time Employees on Plan	Annual Savings
Advantage Single Medical	33	$ 46,240
Advantage Double Medical	76	211,011
Advantage Family Medical	240	954,312
Summit Single Medical	25	35,912
Summit Double Medical	64	182,467
Summit Family Medical	184	784,911
Total	**622**	**$ 2,214,853**

Figures 5.2 and 5.3 provide an illustration, but not the only possible scenario, of prorating medical benefit premiums for part-time state employees. If the Legislature decided to prorate health care premiums, the ranges for the average FTEs and the percentages of payment for each range could, of course, be altered.

The State Prorates Leave Benefits For Part-Time Employees

The state does prorate leave benefits for part-time employees in proportion to the time paid.

The concept of prorating benefits for part-time employees is already used by the state for purposes of paid leave. *Utah Administrative Rule* R477-7-1(2) states that "An eligible employee shall accrue annual, sick and holiday leave in proportion to the time paid as determined by DHRM." To illustrate this rule, if an employee with less than five years' experience works 40 hours per week, they earn four hours of annual leave and four hours of sick leave every two weeks. If the same employee only works 20 hours per week, they earn two hours of annual leave and two hours of sick leave every two weeks. Holiday leave is also prorated for part-time employees.

Public Education and Higher Education Use Variations of Prorated Health Care Premiums

While we recognize the financial impact on individuals from prorating health care premiums for part-time employees, we found that this is a common practice in public and higher education. We surveyed Utah institutions of higher education and school districts and found it a common practice to prorate health care premiums for part-time employees. To obtain greater detail, we then sampled three school districts and the University of Utah to see what they require their part-time employees to pay for health care premiums. All four entities prorate health care premiums for part-time employees.

We found the practice of prorating health care premiums for part-time employees to be common in both public and higher education.

Following are examples of how some school districts and the University of Utah prorate health care premiums for their part-time employees. It is important to note that Figure 5.1, which shows state employee premiums, is based on a biweekly breakdown, while the data for the University of Utah and the three sample school districts are based on a monthly premium breakdown.

The University of Utah Prorates Health Care Premiums for Part-Time Employees

The University of Utah has two premium rate schedules for health care benefits; one for individuals who are 0.75 to 1.00 of an FTE (considered full-time), and one for individuals who are 0.50 to 0.74 of an FTE (considered part-time). Part-time employees who are less than 0.75 of an FTE pay substantially more per month for health care premiums than employees who are 0.75 of an FTE or higher.

For example, Figure 5.4 shows the monthly premiums that full-time and part-time employees pay for medical and dental insurance under the University Health Care Plus system. Similar premium schedules are in place for the other health plans offered to University of Utah employees.

Figure 5.4. Current Premium Schedules for Full- and Part-Time Employees Who Are Enrolled in the University Health Care Plus Medical Plan at the University of Utah. This figure illustrates that part-time employees pay substantially higher premiums for health and dental insurance when compared to full-time employees at the University of Utah.

At the University of Utah, depending on the plan, part-time employees pay 5 to 10 times more per month in health care premiums than full-time employees pay.

University Health Care Plus Medical Plan Monthly Premiums						
	Full-Time Employees (0.75 to 1.00 FTE)			Part-Time Employees (0.50 to 0.74 FTE)		
	Single	Double	Family	Single	Double	Family
Basic	$18.50	$37.34	$55.54	$239.08	$416.28	$569.95
Comprehensive	40.00	73.66	104.32	260.58	452.60	618.73
Advantage	51.82	93.64	131.14	272.40	472.58	645.55

As illustrated in Figure 5.4, part-time employees pay substantially higher premiums per month than full-time employees. In fact, depending on the plan, part-time employees pay five to 10 times more per month in health care premiums than full-time employees pay.

Sampled School Districts Prorate Health Care Premiums for Part-Time Employees

As mentioned, we found that the practice of prorating health care premiums for part-time employees is a common practice for school districts throughout the state. We selected three urban school districts, Granite, Davis, and Salt Lake City, to obtain more data on what their part-time employees pay for health care premiums. All three school districts prorate the health care premiums paid by part-time employees. Although they prorate health care premiums for part-time employees, each school district uses a slightly different approach. In all three school districts, part-time employees pay substantially more in health care premiums than full-time employees.

Granite School District Breaks Down Health Care Premiums Based on FTE Percentage. Granite School District breaks down rates for part-time employees depending on what percent of 1.00 FTE the employee is. Figure 5.5 is a breakdown of each percent of an FTE that is eligible for health care benefits and the corresponding monthly premiums paid by an employee for one of the plans. The premiums shown are for family coverage (employee, spouse, and children) and are monthly data.

Figure 5.5. An Example of Premiums Paid in Granite School District.

Percent of FTE	Monthly Premiums
1.00 FTE	$ 150.77
0.875	156.63
0.83	210.30
0.80	247.41
0.75	309.27
0.69	383.49
0.67	408.23
0.625	463.90
0.50	618.53

Granite School District employees who are 0.50 of an FTE pay $468 more per month for family coverage under one plan when compared to what full-time employees pay.

In Granite School District, employees who are 0.50 of an FTE pay $468 more per month than full-time employees pay for family coverage under this plan. The other health care plans available to employees of Granite School District are all very similar in terms of premiums paid per month for part-time versus full-time employees.

Davis School District Breaks Down Health Care Premiums Based on Hours Worked. Davis School District breaks down premiums by eligible hours per day, and part-time employees pay substantially higher premiums than full-time employees pay. Figure 5.6 shows one plan's premium schedule for employees based on the number of eligible hours they work per day. The premiums shown are for family coverage (employee, spouse, and children) and are monthly data.

Figure 5.6. An Example of Premiums Paid in Davis School District.

Hours Worked	Monthly Premiums
7 + Hours	$ 109.93
6.5	237.82
6	301.76
5.5	365.70
5	429.65
4.5	493.59
4	557.53

In Davis School District, employees who work four hours per day pay $448 more per month for family coverage under one plan than employees who work seven or more hours per day.

In Davis School District, employees who work four hours per day pay $448 more per month for family coverage under this plan than employees who work seven or more hours per day. The other health care plans available to employees of Davis School District are very similar in terms of premiums paid per month.

In Salt Lake City School District, a 0.50 FTE employee would pay the regular employee contribution, plus 50 percent of what the school district would pay for a 1.00 FTE employee.

Salt Lake City School District Requires Part-Time Employees To Pay a Prorated Share of Premiums Based on Average FTE. Salt Lake City School District requires part-time employees to pay a portion of the district's costs for health care premiums based on the employee's FTE status. All classified employees are considered full-time for benefit premiums at 0.75 FTE or 30 hours a week; all other contract employees are not considered full-time unless they work 40 hours (1 FTE).

Under this plan, a 0.50 FTE employee would pay the regular employee contribution, plus 50 percent of what the school district would pay for a 1.00 FTE employee. As a result, in Salt Lake City School District, as in Granite and Davis school districts, part-time employees pay substantially more in health care premiums than full-time employees do.

To summarize, the state could save money each year by prorating health care premiums for part-time employees. In this chapter, we presented cost scenarios for the Legislature to consider if they decide to pursue this option. Of course, any savings to the state would come at significant personal cost to the state's part-time employees in the form of increased health care premiums. Thus, this option must be prudently considered. However, prorating medical premiums has been employed by other Utah public entities such as public and higher education. Also, the state currently prorates leave benefits for part-time employees.

Recommendation

1. We recommend the Legislature consider prorating health care premiums for part-time state employees.

Appendices

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APPENDIX A
Gabriel Roeder Smith & Company
Consultants and Actuaries

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GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631

469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

October 13, 2009

Mr. John M. Schaff, CIA
Auditor General
Office of the Utah Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, UT 84114-5315

Re: **Rehired Retiree Analysis**

Dear Mr. Schaff:

As requested, this letter presents our actuarial analysis of the effect of the Utah Code provisions allowing some retirees to return to work for employers covered by the Utah Retirement Systems (URS) while continuing to receive their retirement benefit. We will refer to these as the Work after Retirement provisions, or the WAR provisions.

As you know, Gabriel Roeder Smith & Company is the retained actuary for URS, which gave us permission to carry out this analysis at your direction. No members of the URS Board of Trustees, Membership Council or staff have participated in or approved this analysis.

Background

The WAR provisions appear in UC §49-11-504. The chief provisions are these:

1. A retiree may return to work for a covered URS employer and continue to draw his/her retirement benefit if:

    a. The retiree returns to work for an employer or agency other than the one he/she retired from, or
    b. The retiree has been retired for six months prior to returning to covered employment

2. The retiree earns no additional retirement benefits during such a period of reemployment

3. Neither the employer nor the employee contributes to the retirement plan during reemployment

4. However, the employer must contribute the employer contribution to a defined contribution plan on behalf of the reemployed retiree during this period of reemployment.

Because the December 2006 report issued by the Office of the Legislative Auditor General (OLAG) already described many of the issues surrounding the WAR provisions, we will not revisit all of the issues that might arise in discussing this topic. Instead, we will focus on the cost effect of the current program.

The Theoretical Case

Before discussing our analysis, we believe it is important for the reader to understand why the current WAR provisions might cause the URS contribution rates to increase over time. Evidently, some of the employers and members do not understand how this could be so.

There is an argument that goes:

- Employee Jones is eligible for retirement
- If Jones decides to retire, his/her benefits are fixed at that time, and won't change if he/she comes back to work under the WAR provisions
- The costs to URS are the same whether Jones lays on the couch, goes to work for Zions Bank, or returns to work for the State of Utah.
- Therefore, the WAR provisions should be at worst a matter of indifference to URS and the State
- In fact, because the retirees often have important institutional knowledge and are trained to do specific work, it is advantageous to the employers to bring them back

We think this argument fails for two reasons, and understanding these will help explain our analysis.

First, the argument ignores the fact that the current contribution rates are based upon assumptions about when and at what rate members retire. In the Public Safety Systems, for example, all members with 20 or more years of service are eligible to retire, but we do not expect all of them to do so immediately upon reaching 20 years. Some will, but some will continue in service until they have 25 or 30 years of service. On average, the costs to the system are smaller for those who continue in service. If the existence of the WAR provisions causes more members to retire immediately upon earning 20 years of service, contribution rates will increase.

If Jones's decision to retire was not influenced by the WAR provisions, then there would be no additional costs for Jones's benefits. However, we believe the large increases in the number of WAR cases that followed the liberalizations of the provisions enacted in 2000, discussed in OLAG's 2006 report, shows that the provisions do have a significant impact on member decisions of when to retire.

Some people may wonder why there is a cost difference since if the employees continue to work they would receive a larger benefit when they retire. By continuing to work, they will receive a benefit based on more years of service and in almost all cases, a higher Final Average Salary. However, by working additional years, they will lose the retirement payments they could have received in the interim. In most cases the lost payments have a larger value than the increase in the future benefits. Let's illustrate this with an example.

Suppose a male state employee age 58 with 30 years of service retired with a monthly benefit of $2,500. The present value of his benefit at retirement is approximately $417,000. If instead of retiring the member had worked another 6 years, then based on our assumed 4% salary increase, he would have been expected to receive a benefit of $3,795 when he retired 6 years later. The increase in the benefit is due to the additional years of service (20% increase) and the increase in the employee's final average earnings (26.5% increase). \$2,500 x 1.2 x 1.265 = \$3,795. The present value at age 58 of the \$3,795 benefit payable six years from now is \$343,000. So by continuing to work the employee would receive a larger benefit but the value of that benefit is worth \$74,000 less than the value of his pension if he retired at age 58. The primary reason for this decrease in value is the \$180,000 in pension payments made between ages 58 and 64 that the retiree does not receive if he continues to work.

The second reason that a WAR program can cause contribution rates to increase over time is that the retirement plan receives no contributions on that position. This requires contribution rates to rise to offset the lost revenue. We have seen this in particular in one Public Safety Fund where over about a five year period it added 16 members who were rehired retirees, in a department with about 130 members. This caused the number of active members covered by the retirement plan to decrease from 123 to 114 over this period. As a result, contribution rates for this fund increased relative to the other public safety funds.

Methodology – Part 1

Our analysis will consist of two parts. First we will estimate the expected cost over the long term from continuing the current WAR provisions. To do this, we focused on the group of retirees that were rehired into a URS covered position on a full-time basis in 2008. We believe this group of retirees represents a typical year's cohort of reemployed retirees.

In this analysis, we assume each of these reemployed retires was induced to retire by the existence of the WAR provisions. Since some members undoubtedly retired with no thought to ever returning to work, our analysis probably overstates the costs of the WAR provisions. However, we believe that most reemployed retirees since 2000 decided to retire in part because they knew they could return to work under the WAR provisions. We base this on the spike in the number of reemployed retirees that occurred after the changes in 2000, as documented in OLAG's 2006 report, and on the fact that when we examined retirement experience in 2005, we saw a movement toward higher retirement rates at younger ages, which we would expect if the WAR provisions were encouraging members to retire immediately upon becoming eligible for unreduced retirement. Also keep in mind that this possible overstatement may be offset in part by the exclusion of reemployed retires working on a part-time basis from our analysis, as discussed later.

To determine the cost impact on URS we focused on the two separate cost issues identified above. The first is the difference in the value of the benefits the employee would have been expected to receive if he/she had not had the option to retire and be rehired in a URS covered position, but instead had continued to work in his/her original URS covered position until ultimate retirement. The second cost item is the value of the lost contributions that URS would have received had these members remained with their employers as covered active members.

To determine the first component, we compared the actuarial present value of the member's actual retirement benefit, determined at the date of retirement, with the value of the projected benefit he would have received assuming he had remained employed until his later final retirement.

We determined the actuarial present value of the benefit they were currently receiving by matching the record in the file we received from OLAG with the retiree data we received from URS. Thus we could determine each member's unit and fund at retirement, original retirement date, monthly retirement benefit, form of payment, service at retirement, and the actuarial present value of the benefit at retirement.

Then we matched the record in the OLAG file back to the last time the member was an active participant. This gave us the member's pay before retirement.

Next we needed to determine when, in the absence of the WAR provisions, they would have retired. If they could not go back to work for the system, would they have continued in covered employment for another year? Five years? Ten years? We assumed that if they are working full-time in reemployment, they would have worked this long in the absence of the WAR provisions. That is, if Jones is a reemployed retiree who retired at age 55, immediately returned to work, and then terminated finally five years later, we believe that in the absence of the WAR provisions, Jones would have worked five more years.

However, since we are working with the group of retirees rehired in 2008, we do not know when they will terminate finally. Therefore, it was necessary to estimate how long on average these members would remain reemployed. To determine our assumption, we began by examining the data for earlier cohorts of reemployed retirees, for example, the group of reemployed retirees who were rehired in 1996. We determined, for the ones who were no longer working—known because the reported 401(k) contributions had stopped—how long they were employed after retirement.

The following table shows the average length of reemployment for those retirees who were initially rehired in 1996. Columns 2 & 3 show the number of rehired retirees who have subsequently retired and their average reemployment period. Columns 3 & 4 show the number of rehired retirees and their average reemployment period who were still actively employed as of the date the data was gathered. Columns 5 & 6 show the aggregate information for the two groups.

1996 Rehired Retirees

	Rehired Retirees Who Have Subsequently Retired		Rehired Retirees Who Are Still Employed		All Rehired Retirees Combined	
Group	Count	Average Duration (Years)	Count	Average Duration (Years)	Count	Average Duration (Years)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Public Employees	12	4.4	3	13.0	15	6.1
Public Safety	10	8.3	5	13.0	15	9.9
Firefighters	5	7.6	0	N/A	5	7.6

Here is similar information for 2001:

2001 Rehired Retirees						
	Rehired Retirees Who Have Subsequently Retired		Rehired Retirees Who Are Still Employed		All Rehired Retirees Combined	
Group	Count	Average Duration (Years)	Count	Average Duration (Years)	Count	Average Duration (Years)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Public Employees	110	3.7	58	8.0	168	5.2
Public Safety	25	3.5	33	8.0	58	6.1
Firefighters	6	3.6	5	8.0	11	5.6

In determining our assumptions for the average reemployment period we looked at the average duration for each year's rehired retirees, not just the 1996 and 2001 cohorts of rehired retirees. Of course, the closer the cohort is to the present, the higher the portion of that cohort that is still working, and the less information is available about how long on average that cohort will work.

As shown in the above table, many of the rehired retirees are still working. In fact, more than 50% of the Public Safety retirees rehired prior to 2001 are still reemployed. Because of this, we could not just use the average period of reemployment for those who had subsequently retired for good. Therefore, we used our judgment to estimate the impact of the rehired retirees who are still employed on the average period of reemployment for the three groups: Public Employees, Public Safety, and Firefighters. Based on our analysis we decided on the following assumptions:

Employee Group	Average Reemployment Period
Public Employees	6 years
Public Safety	10 years
Firefighters	8 years

Given this, we could calculate what each reemployed retiree's benefit would have been if he had remained employed for the additional 6, 10 or 8 years. To determine the member's Final Average Salary, we projected the member's pay in his last active record at 4%, the URS salary increase rate assumption for members with 25 or more years of service. For simplicity, we ignored the probability of death or disability during the reemployment period. Once we had calculated the projected benefit at the age we assumed the member would retire, absent the WAR provisions, we determined the actuarial present value of this benefit at the member's original retirement date. Then we can compare the two actuarial present values—actual and assumed in the absence of the WAR provisions—to determine how much additional cost is due to the WAR provisions. The difference between these is the first portion of our costs described above.

The second cost item we are trying to capture is the lost contributions that the System would have received if the employee had continued employment instead of retiring. We used the same average employment period as used in the first part of our analysis to determine how many years of additional contributions should have been received. To determine this amount we captured the employees' rate of pay at retirement and assumed the same 4% salary increases as described above. We then multiplied these pays by the total contribution rate to URS for the Fund from which they originally retired. We used the fiscal year 2010 contribution rates for this purpose. Note that this calculation reflects both the employer contribution rate and, where appropriate, the member contribution rate. For Firefighters, we used the net rate paid by the employer after reflecting the offset for the fire insurance premium tax receipts. While it is expected that the contribution rates will increase in the future, we did not reflect that in the determination of this portion of the costs. We then calculated the present value of these contributions as of the employees' original retirement dates.

Results of Analysis

The following table shows the results of the analysis for the three groups of reemployed retirees.

System	Increase in Actuarial Present Value of Benefits ($ in Millions)	Present Value of Lost Contributions ($ in Millions)	Total Cost ($ in Millions)	# of Rehired Retirees	Cost per Rehired Retiree
(1)	(2)	(3)	(4)	(5)	(6)
Public Employees	$ 14.8	$ 12.3	$ 27.0	295	$ 91,669
Public Safety	6.7	10.2	17.0	78	217,325
Firefighters	1.3	0.5	1.8	12	151,096
Total	$ 22.8	$ 23.0	$ 45.8	385	$ 118,979

Column (2) shows the increase in the actuarial present value of the benefits paid to the member over the value of what would have been paid if he had remained in service for the assumed period. Column (3) shows the value of the contributions lost to the retirement system because of the member's retirement, and Column (4) shows the totals of columns (2) and (3). Column (5) shows the number of 2008 reemployed retirees in each category, and Column (6) shows the average cost per reemployed retiree.

It might be useful to consider an example. Let's consider a member who retired from the Ogden Public Safety System in 2007 and was rehired in 2008. This member had 20.3 years of credited service at his retirement and was 43 years old. His retirement income is $1,802 per month and he is married so the benefit is payable in a Joint and 65% Survivor form of payment. The present value of his benefit at retirement is $363,077. If the member had continued to work another 10 years (our assumed reemployment period for Public Safety) then he would have had 30 years of service and his final average earnings would have been expected to have been 48% greater. Therefore his estimated benefit if he had continued earning benefits for an additional ten years would be $3,692 per month (more than double his original benefit). However, the present value at his 2007 retirement date of this benefit payable in 2017 is only $325,164 which is $37,913 less than the value of his actual benefit when he retired.

In addition to the difference in benefit values, if the member had worked another 10 years then the employer would have been expected to contribute 33.11% of the member's compensation each year during those 10 years of employment. (The 33.11% figure is the FY 2010 contribution rate for Ogden Public Safety.) Based on the member's rate of pay at his retirement in 2007, the present value of these "lost" contributions at his actual retirement date is $129,549. Therefore, the total cost to URS of the member retiring in 2007 instead of 2017 is $167,462.

We can also take these same costs and convert them to a percentage of compensation.

System	Increase in Actuarial Present Value of Benefits ($ in Millions)	Present Value of Lost Contributions ($ in Millions)	Total Costs ($ in Millions)	2008 Payroll ($ in Millions)	Total Cost as % of Payroll
(1)	(2)	(3)	(4)	(5)	(6)
Public Employees	$ 14.8	$ 12.3	$ 27.0	$ 3,967	0.68%
Public Safety	6.7	10.2	17.0	366	4.64%
Firefighters	1.3	0.5	1.8	102	1.79%
Total	$ 22.8	$ 23.0	$ 45.8	$ 4,434	1.03%

The first four columns are the same as the previous table. Column (5) shows the total 2008 payroll from our actuarial valuation for each of the three groups. This combines payroll for all funds in the contributory and noncontributory public employee retirement systems and for all funds in the contributory and noncontributory public safety retirement systems. Column (6) shows the total costs as a percentage of payroll. One way to think about this is that the rates shown in column (6) represent the difference between (a) the ultimate contribution rate once the impact of the reemployed retirees is fully felt and all retirement rates have been adjusted to reflect the reemployed retirees retiring earlier than they would have done otherwise, and (b) the contribution rate that would have resulted if the WAR provisions had never been enacted.

What these Numbers Do Not Represent

It is not the case that if the WAR provisions are left in place, contribution rates will increase by the percentages shown. Over the last three experience studies, changes have been made to retirement rates that may partially reflect the fact that the WAR provisions are probably pushing members to retire earlier. Therefore, we believe the current contribution rates include some of the costs indicated (e.g., some of the 4.64% for Public Safety). However, we do not know whether our current rates already include all of these additional costs.

Nor is it the case that if the WAR provisions are completely rescinded, contribution rates will immediately be reduced by the figures shown above. Any reduction would occur slowly, over several years, as behavior changed, resulting in changes to our retirement assumptions. There would be no immediate impact on the actuarially calculated contribution rates.

Methodology – Part 2

The second part of our analysis estimates the past impact on URS of the WAR provisions that have been in effect since 2000. We estimated the impact of the rehired retirees in each year, 2000 through 2008, by assuming that the average rehired retiree from prior years is similar to the average rehired retiree from our 2008 cohort (based on the individual's System at retirement: Public Employees, Public Safety, or Firefighters). We took our average increase in present value of benefits and our average present value of lost contributions from the table on page 6 and adjusted them for the fact that salaries increase over time. To get the average costs for earlier cohorts of rehired retirees, we discounted the costs by 4% per year, compounded, for each year the cohort preceded 2008. So, for example, the average cost used for the 2007 cohort of rehired retirees was 4% less than the average for the 2008 cohort, reflecting the assumed 4% difference between the salaries at retirement for each cohort.

After determining the average retiree impact for the year the retiree returned to work, we then multiplied this number by the number of rehired retirees (again based on System at retirement) from that particular year to give us the total impact of all of the rehired retirees for that year. Of course that present value impact will be as of that particular year of rehire, so we then added interest (using the valuation assumption of 7.75%) to bring the present values up to the present day.

The following table shows, for each year since 2000, the assumed number of rehired retirees for each System. These are the rehired retirees who began receiving a 401(k) contribution in that year.

Year Rehired	Public Employees	Public Safety	Firefighters	Total
2000	86	39	6	131
2001	173	58	11	242
2002	205	42	5	252
2003	174	67	5	246
2004	185	50	2	237
2005	229	81	17	327
2006	402	83	17	502
2007	376	66	12	454
2008	295	78	12	385
Total	2,125	564	87	2,776

Based on these numbers, we have estimated the current value of the additional value of benefits these rehired retirees received by retiring earlier than they otherwise would have. We have also estimated the current value of the contributions that were not received on behalf of these employees since they retired earlier than expected. The following table shows the current value of the impact on the retirement systems.

Accumulated Impact of Rehired Retirees Since 2000 ($ in Millions)				
Retirement System	Public Employees	Public Safety	Firefighters	Total
Additional benefit value	$ 128.6	$ 59.7	$ 11.4	$ 199.7
Lost contributions	106.5	90.5	4.6	201.6
Total impact	$ 235.1	$ 150.2	$ 16.0	$ 401.3

As we stated above, we have not included any rehired retirees prior to 2000 in our analysis. We decided to proceed in this manner due to the changes made to the WAR program in 2000, which considerably increased the incentive for members to retire early and return to work on a full time basis. These changes also made it considerably easier for an employee to return to work at their current employer (perhaps even to their same job). To provide an order of magnitude there were approximately 277 additional retirees who were rehired prior to 2000 and who received contribution to the URS 401(k) plan.

Member Data for Analysis

URS supplied to OLAG information on members who were reemployed retirees, and on the subset of these members who received employer contributions in the 401(k) plan. OLAG supplied us with these files, although they originated with URS staff. These files had information on all reemployed retirees from 1995 through 2008. We used a subset of this information to perform the analysis described herein, combining this information with data for these members submitted by URS for the actuarial valuations.

There were three reasons that not every reemployed retiree shows up in the file indicating that a 401(k) contribution was made on their behalf. First, prior to 2000, many employers did not provide a 401(k) contribution on behalf of reemployed retirees. Second, if a member is working part-time (under 20 hours/week), the employee is not be eligible for coverage by URS, so no 401(k) contribution is required under UC §49-11-504. Third, there are about 100 generally small employers that do not participate in the 401(k) plan administered by URS. A rehired retiree from one of these units might be full-time and might receive an employer contribution in a separate defined contribution plan maintained by the employer, but URS would not have this data.

In our analysis, we focused on members who were reemployed retirees and who were receiving employer contributions in the URS 401(k) plan. Therefore, these are members who have returned to work on a full-time basis (where full time means working at least 20 hours/week). This means our analysis does not reflect the impact of members who, encouraged by the WAR provisions, retire earlier than they would have otherwise and return to work on a part-time (less than 20 hours/week) basis. It seemed reasonable to us to assume that members who returned to full-time employment would have continued in full-time employment in the absence of the WAR provisions, but it was less clear what the other members would have done. Further, it would have been difficult, possibly impossible, to carry out a similar analysis on those who returned to a part-time position, because the dates in the URS file are known to represent the date the employer self-reported the reemployment, and there was no way to determine whether the employee was still employed. By ignoring these retirees who returned to work on a part-time basis, we are conceivably understating the impact of the WAR provisions. To understand the magnitude of this issue, note that in the files received from OLAG, there were 528 retirees who had returned to work in 2008, but only 385 who received a 401(k) plan contribution.

In discussions with OLAG staff, we concluded that the number of employers who maintained 401(k) plans not administered by URS was probably immaterial and we decided to ignore them. We also decided in our discussions with OLAG staff to focus solely on the largest groups: Public Employees (including general state employees, general local government employees and employees of the public school districts), Public Safety, and Firefighters. We made no attempt to examine the impact of the WAR provisions on judges or legislators.

Some members in the data provided by OLAG were rehired more than once. In these cases we counted the individual just once. Some members who were in one group, say Public Safety, may have been reemployed in another group, such as general local government. In these cases the individual was assigned to his plan/fund/unit/employment type when he was last an active employee. (That is, we assumed that, in the absence of the WAR provisions, police officers would have remained in Public Safety.)

Other Comments

There were 385 retirees who were rehired in 2008 and who received 401(k) contributions from their employer. This number is less than the number of similarly rehired retirees in 2007 (454) and 2006 (504). Nonetheless, we believe the number of reemployed retirees in 2008 is reasonably representative of the long-term impact. The numbers in 2006 and 2007 were affected by the fact that an outsized number of public employees retired in 2006 in order to lock in their post-retirement medical benefits. Many of these unexpected retirements in 2006 were not actually ready to retire for good, and later came back to URS as reemployed retirees.

We wanted to comment on the contradictory nature of the plan design in the Public Safety and Firefighter Systems and the return to work rules. Both of these systems have a maximum amount of service that is considered in the determination of the members' benefits (30 years). The reason for this design is to encourage retirement when this threshold is met. Typically this would occur when these members reach their mid 50's. The idea behind the plan design is that the employer would prefer not to have front line Public Safety personnel or Firefighters working into their late 50's and early 60's. Now it is certainly debatable whether this concept still holds true, but we think it is odd to have a plan design that encourages members to retire when they reach 30 years of service but then allow such employees to be rehired and continue to work many years beyond that threshold.

J. Christian Conradi is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

Lewis Ward
Consultant

J. Christian Conradi
Senior Consultant

cc: Mr. Robert V. Newman, Director, Utah Retirement Systems
Ms. Maria Stahla, CFE, Audit Supervisor, OLAG

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Appendix B

Year	Projected Rehires	Additional Benefit Liabilities* Projected to be Incurred: Per Individual	Additional Benefit Liabilities* Projected to be Incurred: All Rehires/Year	Lost Contributions: Per Individual	Lost Contributions: All Rehires/Year	Total** Additional Retirement Liabilities Projected to Be Incurred: Per Individual	Total** Additional Retirement Liabilities Projected to Be Incurred: All Rehires/Year
2009	435	$ 61,696	$ 26,815,390	$ 62,042	$ 26,965,978	$ 123,738	$ 53,781,368
2010	468	64,164	$ 30,059,914	64,524	$ 30,228,723	128,688	$ 60,288,637
2011	503	66,730	$ 33,549,590	67,105	$ 33,737,995	133,835	$ 67,287,584
2012	537	69,399	$ 37,299,976	69,789	$ 37,509,443	139,189	$ 74,809,419
2013	573	72,175	$ 41,327,534	72,581	$ 41,559,618	144,756	$ 82,887,152
2014	608	75,062	$ 45,649,668	75,484	$ 45,906,024	150,546	$ 91,555,691
2015	644	78,065	$ 50,284,782	78,503	$ 50,567,167	156,568	$ 100,851,949
2016	681	81,188	$ 55,252,333	81,643	$ 55,562,614	162,831	$ 110,814,947
2017	717	84,435	$ 60,572,886	84,909	$ 60,913,046	169,344	$ 121,485,932
2018	755	87,812	$ 66,268,175	88,306	$ 66,640,319	176,118	$ 132,908,494
Totals for 2009-2018**			**$ 447,080,247**		**$ 449,590,927**		**$ 896,671,174**
Net Present Value (in 2009 Dollars)			$ 285,477,980		$ 287,081,146		$ 572,559,126

*Expressed as the present value in the year incurred.

**Totals in the figure do not always equal the exact products of their factors because of rounding and significant digits issues in the projection formulas.

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Appendix C

The table on the left shows from which units rehired retirees have retired. The table on the right shows to which units rehired retirees have become reemployed.

Unit Retired From	Rehired Retirees
STATE OF UTAH	770
GRANITE SCHOOL DISTRICT	528
JORDAN SCHOOL DISTRICT	443
WEBER CO SCHOOL DISTRICT	200
ALPINE SCHOOL DISTRICT	197
SALT LAKE COUNTY	197
SALT LAKE SCHOOL DISTRICT	169
SALT LAKE CITY CORP	148
DAVIS SCHOOL DISTRICT	129
OGDEN SCHOOL DISTRICT	87
OGDEN CITY CORP	73
PROVO SCHOOL DISTRICT	68
NEBO SCHOOL DISTRICT	59
WEBER COUNTY CORP	47
VALLEY MENTAL HEALTH	47
CARBON SCHOOL DISTRICT	43
MURRAY SCHOOL DISTRICT	41
BOX ELDER SCHOOL DISTRICT	39
WASHINGTON SCHOOL DIST	33
TOOELE SCHOOL DISTRICT	32
UNIVERSITY OF UTAH	26
DAVIS COUNTY	25
OREM CITY	25
CACHE SCHOOL DISTRICT	24
MURRAY CITY	24
WEST VALLEY CITY	24
SEVIER SCHOOL DISTRICT	23
LOGAN CITY	22
SAN JUAN SCHOOL DISTRICT	21
SANDY CITY	21
IRON SCHOOL DISTRICT	20
165 units retired fewer than 20 rehired retirants	677
Retirement unit unavailable from URS	29
TOTAL	4,311

Unit Rehired By	Rehired Retirees
STATE OF UTAH	722
GRANITE SCHOOL DISTRICT	461
JORDAN SCHOOL DISTRICT	420
ALPINE SCHOOL DISTRICT	251
SALT LAKE SCHOOL DISTRICT	197
WEBER CO SCHOOL DISTRICT	151
DAVIS SCHOOL DISTRICT	149
SALT LAKE COUNTY	138
OGDEN SCHOOL DISTRICT	116
WEBER COUNTY CORP	80
SALT LAKE CITY CORP	71
VALLEY MENTAL HEALTH	58
WASHINGTON SCHOOL DIST	57
OGDEN CITY CORP	55
NEBO SCHOOL DISTRICT	53
CARBON SCHOOL DISTRICT	49
MURRAY SCHOOL DISTRICT	42
PROVO SCHOOL DISTRICT	40
UTAH COUNTY	39
DAVIS COUNTY	38
TOOELE SCHOOL DISTRICT	34
BOX ELDER SCHOOL DISTRICT	32
UNIVERSITY OF UTAH	23
CITY OF WEST JORDAN	23
CACHE SCHOOL DISTRICT	22
DUCHESNE SCHOOL DISTRICT	22
SEVIER SCHOOL DISTRICT	21
223 units employ fewer than 20 rehired retirants	947
TOTAL	4,311

The table on the left above reports the number of rehired retirees "retired from" each unit, and the table on the right reports the number of rehired retirees "rehired by" each unit. The number of individuals "rehired by" a unit may or may not include the same individuals "retired from" that same unit. In other words, not all 722 rehired retirees rehired by the State of Utah were the same rehired retirees who retired from the State of Utah. In fact, many of them retired from units other than the State of Utah. The same is true for all units.

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Appendix D

URS records contain rehire data for 4,311 retirees. Those 4,311 individuals are responsible for 5,033 instances of rehiring. The table below shows how many retirees have been rehired more than once:

Instances of Being Rehired During Retirement	Number of Rehired Retirants	
1	3,707	86.0%
2	508	11.8%
3	77	1.8%
4	16	0.4%
5	3	0.1%
Grand Total	4,311	100.0%

The tables below compare unique rehires and total rehire instances for each year:

Total Retirements			Unique Rehires		Unique Rehires as a Percent of Retirements	Total *Rehires*		Total Rehires as a Percent of Retirements
Year	**Total Retirements**	Percent Change	**Unique Rehires**	Percent Change		**Total Rehires**	Percent Change	
1995	1,626		125		8%	135		8%
1996	1,670	3%	149	19%	9%	171	27%	10%
1997	1,681	1%	152	2%	9%	187	9%	11%
1998	1,763	5%	185	22%	10%	215	15%	12%
1999	2,020	15%	226	22%	11%	266	24%	13%
2000	2,021	0%	209	-8%	10%	244	-8%	12%
2001	2,012	0%	268	28%	13%	298	22%	15%
2002	2,059	2%	240	-10%	12%	273	-8%	13%
2003	2,161	5%	297	24%	14%	338	24%	16%
2004	2,185	1%	314	6%	14%	349	3%	16%
2005	2,712	24%	372	18%	14%	455	30%	17%
2006	3,177	17%	627	69%	20%	758	67%	24%
2007	2,584	-19%	618	-1%	24%	729	-4%	28%
2008	2,474	-4%	529	-14%	21%	615	-16%	25%
Total	30,145		4,311		14%	5,033		
Change from '95-'08		52%		323%			356%	

Although Figure 2.1 shows that 4,311 individuals retired and rehired from 1995 to 2008, there were actually 5,033 instances of retiring because 508 people rehired more than once after retirement. A few made up to five moves after retirement. The data in this report is based the rehired retirees' first instance of being rehired. It is important, however, to realize that some people were rehired multiple times with the same or different entities from which they retired.

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Appendix E

Of the 4,311 retirees who returned to work since 1995, 2,321 (54 percent) retired from public education and became reemployed as follows:

	Rehired by:					
	Public Education					
Retired from:	Same District	Different District	State of Utah	Local Gov. & Other	Higher Education	Total
Public Education	1,524	597	73	104	23	2,321
Percent of Total	66%	26%	3%	4%	1%	100%
	91%					
		34%				

Of the 4,311 retirees who returned to work since 1995, 858 (20 percent) retired from state government and became reemployed as follows:

	Rehired by:						
Retired from:	State of Utah PERS Minus Public Education and Judges & Legislators	State of Utah PSR	Local Gov't & Other PERS	Local Gov. PSR	Public Education	Judges and Legislators	Total
State of Utah and Higher Ed PERS	380	1	98	1	71	4	555
State of Utah PSR	99	76	48	52	28	-	303
Total:	479	77	146	53	99	4	858
Percent of Total	55.8%	9.0%	17.0%	6.2%	11.5%	0.5%	100%

PERS—Public Employees retirement system (the 30 year system)
PSR—Public Safety retirement system (the 20 year system)

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Appendix F

Number of Individuals Retired From and Rehired In Departments in State Government and Number That Received a 401(k) Contribution*

State Department:	Number of Retirees 1/1998 - 6/2009	Number of Rehires 1/1998 - 6/2009	Number receiving 401(k) Contributions in 1/2009
Corrections	105	87	68
Public Safety	85	62	44
Board of Education	90	102	35
Human Services	63	67	25
Commerce	10	20	24
Attorney General	9	11	15
Transportation	67	62	13
Natural Resources	90	90	12
Health	53	53	12
Judicial Branch	37	38	12
DABC	20	30	11
Workforce Services	109	97	10
Technology Services	7	9	9
Board of Pardons	0	1	9
Governor's Office	7	13	8
Administrative Services	18	13	5
Agriculture	16	23	5
Environmental Quality	4	4	4
Utah National Guard	2	3	4
Labor Commission	8	7	2
Insurance	1	3	2
State Treasurer	0	1	1
Human Resource Management	0	0	1
Tax Commission	25	36	0
Dept of Community & Culture	16	18	0
Multiple smaller departments	23	23	2
Totals	865	873	333

**The data includes any State of Utah employees who had a "Retirement" action entered in DHRM's database between 1/1/1998 and 6/18/2009, who were then subsequently rehired by the State of Utah. 401(k) recipients were those that received a contribution in period*

The number of individuals "rehired by" a department may or may not include the same individuals "retired from" that same department.

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Appendix G

Utah Retirement Systems

Preliminary Retirement Contribution Rates as a Percentage of Salary and Wages
Fiscal Year July 1, 2010 - June 30, 2011

	2009-2010 RATES			Preliminary 2010-2011 RATES			
	Employee	Employer	Total	Employee	Employer	Total	Increase (Decrease)
Public Employees							
Contributory Retirement System							
11- Local Government	6.00	7.65	13.65	6.00	9.36	15.36	1.71
12- State and School	6.00	9.73	15.73 [1,2]	6.00	11.83	17.83 [1,2]	2.10
Public Employees							
Noncontributory Retirement System							
15- Local Government	-	11.66	11.66	-	13.37	13.37	1.71
16- State and School	-	14.22	14.22 [1,2]	-	16.32	16.32 [1,2]	2.10
Public Safety							
Contributory Retirement System							
Division A							
22- State With 4% COLA	12.29	19.01	31.30 [1,3]	12.29	21.45	33.74 [1]	2.44
23- Other Division A With 2.5% COLA	12.29	12.47	24.76	12.29	14.57	26.86	2.10
77- Other Division A With 4% COLA	12.29	15.01	27.30 [3]	12.29	18.10	30.39 [4]	3.09
Division B							
27- Logan With 2.5% COLA	11.13	17.81	28.94	11.13	20.69	31.82	2.88
Logan With 4% COLA	11.13	21.24	32.37 [3]	11.13	23.88	35.01 [4,5]	2.64
29- Other Division B With 2.5% COLA	10.50	16.67	27.17	10.50	18.83	29.33	2.16
74- Other Division B With 4% COLA	10.50	19.17	29.67 [3]	10.50	23.04	33.54 [4]	3.87
Public Safety							
Noncontributory Retirement System							
Division A							
42- State With 4% COLA	-	30.18	30.18 [1,3]	-	32.48	32.48 [1]	2.30
43- Other Division A With 2.5% COLA	-	23.34	23.34	-	25.83	25.83	2.49
75- Other Division A With 4% COLA	-	25.90	25.90 [3]	-	28.55	28.55 [4]	2.65
48- Bountiful With 2.5% COLA	-	23.07	23.07	-	27.25	27.25	4.18
Bountiful With 4% COLA	-	26.82	26.82 [3,5]	-	30.47	30.47 [4,5]	3.65
Division B	-						
44- Salt Lake City With 2.5% COLA	-	35.71	35.71	-	35.71	35.71	0.00
Salt Lake City With 4% COLA	-	39.39	39.39 [3,5]	-	39.39	39.39 [4,5]	0.00
45- Ogden With 2.5% COLA	-	33.11	33.11	-	34.52	34.52	1.41
Ogden With 4% COLA	-	37.34	37.34 [3,5]	-	38.15	38.15 [4,5]	0.81
46- Provo With 2.5% COLA	-	30.91	30.91	-	32.70	32.70	1.79
Provo With 4% COLA	-	34.20	34.20 [3,5]	-	35.71	35.71 [4,5]	1.51
47- Logan With 2.5% COLA	-	27.74	27.74	-	31.24	31.24	3.50
Logan With 4% COLA	-	31.19	31.19 [3,5]	-	34.46	34.46 [4,5]	3.27
49- Other Division B With 2.5% COLA	-	26.21	26.21	-	28.06	28.06	1.85
76- Other Division B With 4% COLA	-	28.73	28.73 [3]	-	32.52	32.52 [4]	3.79
Firefighters' Retirement System							
Division A							
Gross Rate	15.05	10.78	25.83	15.05	12.95	28.00	2.17
Insurance Premium Offset	(1.56)	(10.78)	(12.34)	0.00	(11.87)	(11.87)	0.47
31- Net rate	13.49	0.00	13.49	15.05	1.08	16.13	2.64
Division B							
Gross Rate	16.71	4.61	21.32	16.71	9.97	26.68	5.36
Insurance Premium Offset	(7.03)	(4.61)	(11.64)	(1.90)	(9.97)	(11.87)	(0.23)
32- Net rate	9.68	0.00	9.68	14.81	0.00	14.81	5.13
Judges' Retirement System							
Gross Rate	0.00	30.92	30.92 [1]	-	36.35	36.35 [1]	5.43
Court Fees Offset	0.00	(13.83)	(13.83)	-	(14.08)	(14.08)	(0.25)
37- Net rate- Noncontributory	-	17.09	17.09 [1]	-	22.27	22.27 [1]	5.18
Govenors and Legislative							
14- Appropriation Payable by June 30, 2011		$0	$0		$153,398	$153,398	$153,398

1 Includes funding of 3% Substantial Substitute based on salaries for all state and school employees.
2 Does not include 1.5% 401(k).
3 The Rate showing for the State Public Safety is effective January 1, 2009 not July 1, 2009.
4 For Public Safety units electing the 4% COLA during calendar year 2009, the new rate will go into effect on January 1, 2010 not July 1, 2010.
5 Rate if Public Safety Employer elects the 4% COLA.

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Agency Response

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Utah Retirement Systems

Retirement Office
560 East 200 South
Salt Lake City, UT 84102-2021
(801) 366-7700
(800) 365-8772 Toll Free
(801) 366-7734 Fax
www.urs.org
ROBERT V. NEWMAN
Executive Director

Public Employees Health Program
560 East 200 South
Salt Lake City, UT 84102-2004
(801) 366-7500
(800) 365-8772 Toll Free
(801) 366-7596 Fax
www.pehp.org
JEFFREY L. JENSEN
Director

November 3, 2009

John A. Schaff, CIA
Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

Utah Retirement Systems' (URS) management and staff appreciate the invitation to comment on *A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees* (Report Number 2009-17). The auditors took the time and effort to understand the complexity of the issues, and met repeatedly with URS staff to discuss these issues. URS also made every effort to ensure that the auditors were provided with timely, accurate information.

Attached is the URS response to the audit. URS agrees that the recommendations will address the issues raised in the report. Where appropriate, URS has provided additional commentary in response to the recommendations.

We look forward to responding to questions and suggestions as this audit report is presented to various legislative committees.

Sincerely,

Robert V. Newman

Robert V. Newman
Executive Director
UTAH RETIREMENT SYSTEMS

Response to the Legislative Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees

Introduction

The Utah Retirement Systems (URS) is pleased to respond to *A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees* (Report), Report Number 2009-17, issued by the Office of the Legislative Auditor General (OLAG). URS appreciated the opportunity to meet and discuss the Report with the staff of OLAG.

OLAG issued Report Number 2006-11 titled *A Performance Audit of Post-Retirement Re-Employment* in December 2006. URS supported the recommendations of this audit report and prioritized them in order of effectiveness in reducing the number of rehired retirees. The recommendations and their order of effectiveness as identified by URS were:

(1) Require that contributions go into the Defined Benefit Plan rather than into the retiree's 401(k);
(2) Prohibit any employment with the agency (employer) from which the employee retired for a period of 6 months, including part time or contract work;
(3) Amend the definition of agency (this was done in the 2007 legislative session);
(4) Extend the waiting period from six to twelve months; and
(5) Provide additional cost estimates on legislative proposals.

During the oral response to the December 2006 audit committee, URS testified that no cost had been identified relating to post retirement. However, URS reported that if more retirees returned to work and participated in post retirement employment, an actual cost would be identified and would cause an increase in the contribution rate. The actuary cannot identify how much the contribution rate has been affected by post retirement employment, but the retirement patterns are being reflected in the contribution rate.

In response to the OLAG Report Number 2006-11, bills were introduced in the 2007 legislative session to address some of the issues raised by OLAG. Specifically, changes to: (1) prohibit any employment with the employer from which the member retired within six months of retirement; (2) amending the definition of "agency" to make it more difficult to return to work after retirement; and (3) limiting the DC contribution for a re-employed participant to 1.5%. The 2007 legislature only passed legislation which redefined "agency" and did not make changes to (1) and (3). During subsequent legislative sessions there has been discussion about making other changes to post retirement employment rules, however no bills have been proposed.

Chapter II

Recommendation 1: We recommend the Legislature eliminate the current post-retirement employment provisions and implement the following steps:

- Suspend the pension for those who return to work full-time,
- Allow retirees to return to active membership in the retirement system and continue to earn service credits, and
- Resume pension payments when the member ultimately retires.

URS Response: URS agrees this recommendation is one way to address the issues raised in Chapter II of the report. Also, recommendation #1 in Chapter III of this report would address the issues raised in Chapter II. Requiring the employers to make DB contributions to URS' defined benefit plan and eliminating the contribution to reemployed retirees' 401(k) accounts would help better fund the DB plan while eliminating one of the key incentives for retiring earlier than planned. This approach would allow employees to retire and return to work without accruing new service credit and an increased retirement benefit, in exchange for being allowed to collect their retirement benefit. These contributions would help to improve the funding of the DB plan.

Recommendation 2: We recommend that if the Legislature does not implement Recommendation 1, they prohibit any work, inclusive of part-time and contract work, from qualifying as part of the six-month waiting period to return to full-time employment.

URS Response: URS supports this recommendation as it will clarify the six-month definition of separation and assist in the efficient administration of post-retirement rules. It will eliminate any working connection between the retired employee and the employer and increase the probability that the employer will hire another individual to the vacated position, rather than holding the position open for the retired employee to return to. This true six-month separation will ease the administration of this provision of the statute.

Chapter III

Recommendation 1: We recommend the Legislature consider amending the post-retirement reemployment statute to require employers to make DB contributions to URS' defined benefit plan instead of making contributions to the personal 401(k) accounts of reemployed retirees.

URS Response: URS supports this recommendation as outlined in our Response to Recommendation 1 of Chapter II. This provision would provide a new source of funding to the retirement system without any associated liability.

Recommendation 2: If the Legislature chooses not to amend the post retirement employment statute discussed in Recommendation 1, we recommend the Legislature eliminate the 401(k) requirement for reemployed retirees.

URS Response: URS agrees with the recommendation. The elimination of the contribution to the DC account for a reemployed participant will remove an incentive to retire early.

Recommendation 3: We recommend the Legislature require URS to monitor, track, and report on any future post-retirement reemployment.

URS Response: URS will work with its actuary to develop methods to monitor, track, and collect data on post-retirement employment.

Chapter IV

Recommendation 1: We recommend that the Legislature require the Utah Retirement Systems to study and make recommendations to the Legislature regarding ways to prevent part-time employees from inflating their retirement benefits.

URS Response: URS will, as directed by the Legislature, perform studies and make recommendations regarding part-time employees and their associated retirement benefits.

Chapter V

Recommendation 1: We recommend that the Legislature consider prorating health care premiums for part-time state employees.

URS Response: This recommendation is a policy decision to be determined by the Legislature. URS will administer the health benefits according to whatever policy is adopted by the Legislature.