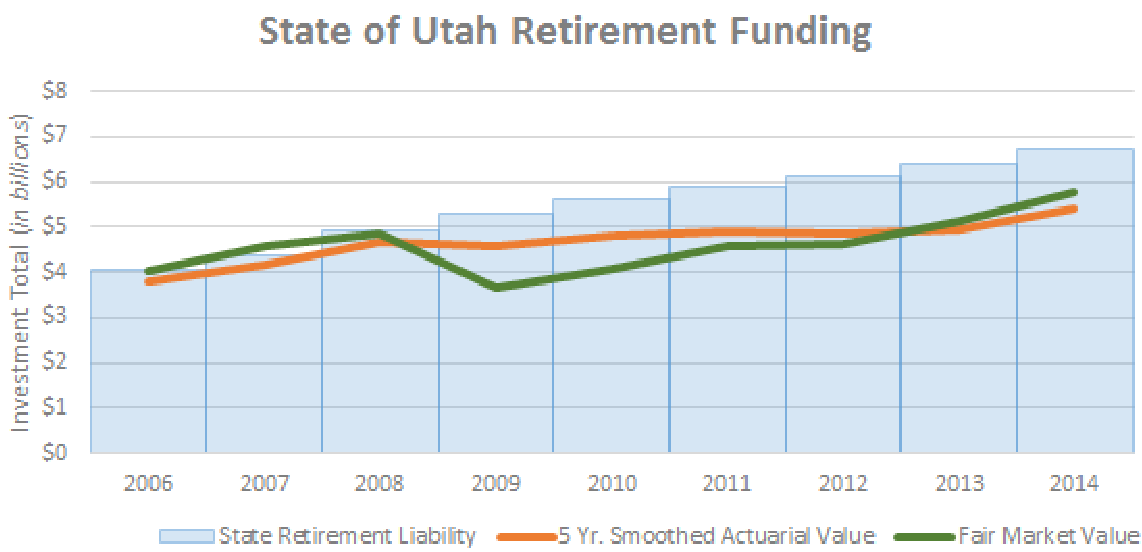
Fiscal Highlights

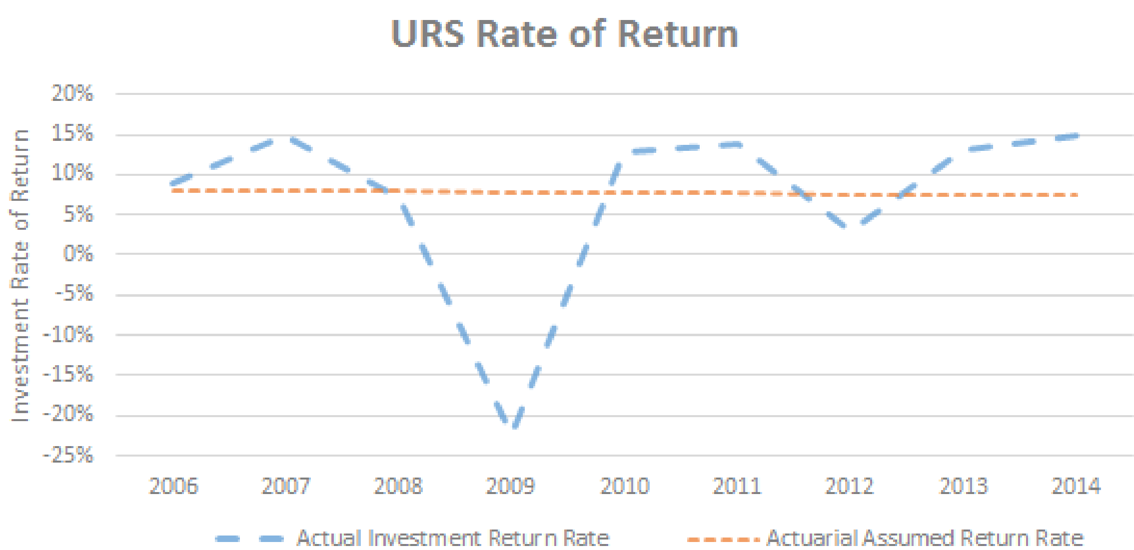
The Billion Dollar Retirement Gap - Brian D. Fay

In 2008, the Utah Retirement System (URS) experienced investment losses of nearly 25 percent, leaving a $7 billion unfunded liability. As the single largest member of URS, these loses resulted in an unfunded retirement liability for the State of Utah of just over $1.6 billion. In January 2009, the State began a 25 year amortization of this funding gap and as of January 2014, the unfunded retirement liability for the State was just under $942 million.

Actuarial Value vs. Fair Market Value

The fair market value (FMV) of investments fluctuates sharply in response to the market. To protect the state budget from these sharp fluctuations, URS utilizes a 5-year smoothed expected rate of return for determining the actuarial required contribution (ARC).





While this actuarial valuation stabilizes contribution rates, it can create some confusion by creating an actuarial value of assets that differs from the fair market value. This also results in two funding ratios.

Funded Ratios

As of January 2014, the state pension liability stood at $29.17 billion. Fair market value of assets stood at $25.59 billion (86.0%) and actuarial value of assets stood of $23.41 billion (80.2%). This difference is due to nearly $400 million in investment gains that have not yet been recognized in the actuarial value.

Unfunded Liability Amortization

The state began a 25-year amortization plan to bring the pension funded ratio back to 100% in January 2009. For the past 5 years, approximately 40% of the retirement contributions made by the state have gone to amortize the unfunded liability. For FY 2015, the amortization portion of retirement contributions for the state will equate to nearly $100 million. Thanks to funding by the Legislature and to higher-than-expected returns on investments, URS has already reduced the FMV unfunded liability by 42%.