

Retirement Primer

House Revenue and Taxation
Standing Committee

February 10, 2016

The Office of Legislative Research and General Counsel
Office of the Legislative Fiscal Analyst



Overview

- Concepts and Definitions
- Why should I care?
- Utah Retirement Systems
- Post-retirement Employment Restrictions
- Current Financial Status
- Summary and Conclusions



Plan Types

▪ Defined Benefit (“DB”)

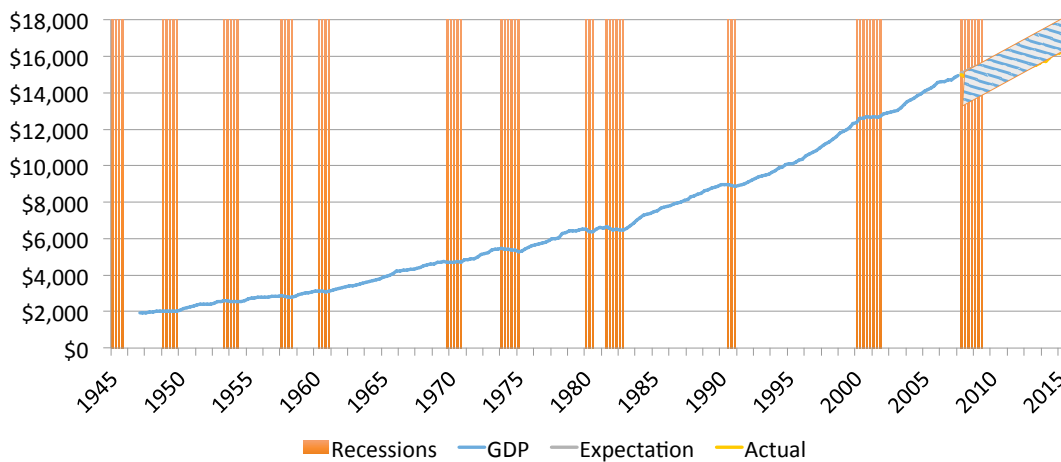
A traditional or “fixed” pension under which employees and their spouses receive upon retirement a pre-defined monthly amount, sometimes including cost of living adjustments, usually based upon final salary and length of service.

▪ Defined Contribution (“DC”)

A retirement savings program under which employers make contributions to an employee’s retirement account during employment, but make no commitment regarding benefits paid after employment/upon retirement. Common DC plans include 401K and 457 accounts.

DB vs. DC – Why Does it Matter?

U.S. GDP (\$m) & Recessions



Measures of Unfunded Liability

- **Old: Unfunded Actuarial Accrued Liability (UAAL)**

Difference between actuarial value of assets and actuarial value of liabilities. The amount of retirement due to employees in future years that exceed current assets and projected growth.

- **New: Net Pension Liability (NPL)**

Difference between the present value of projected benefits and the fair value of investments.

Rate Definitions

- **Annual Required Contribution (ARC)**

Employer's periodic contribution to a defined benefit plan necessary to fund liability in the long term. Set by actuarial analysis.

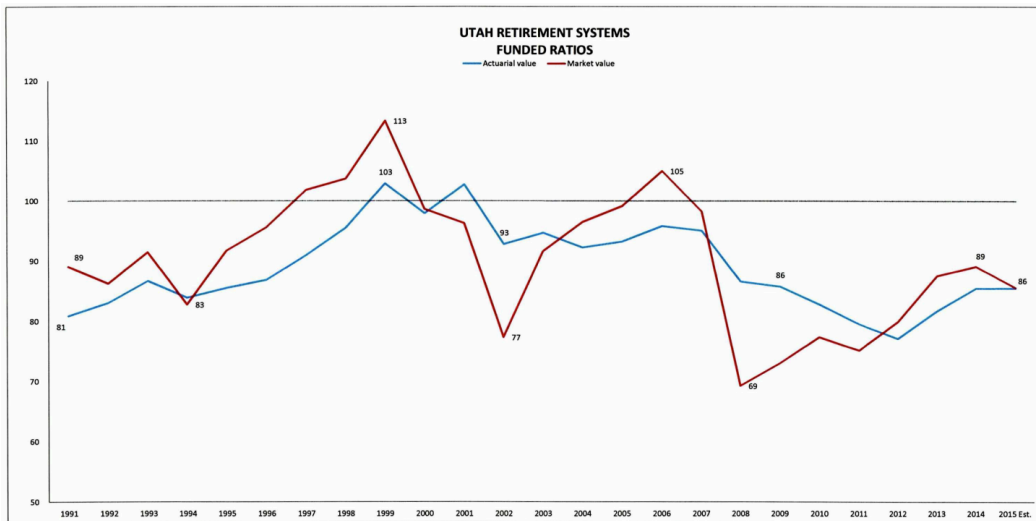
- **Certified Contribution Rate**

Payroll additive rate set by URS board and paid by employers participating in retirement system on behalf of active members – based on ARC but can differ.

Many Factors Influence Net Position

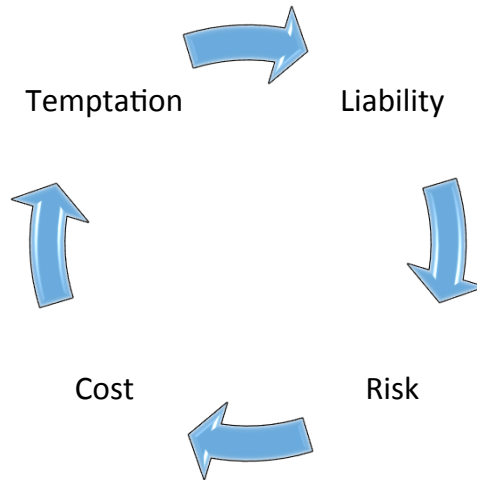


Volatility



Source: Utah Retirement Systems Report to Executive Appropriations Committee, November, 2015.

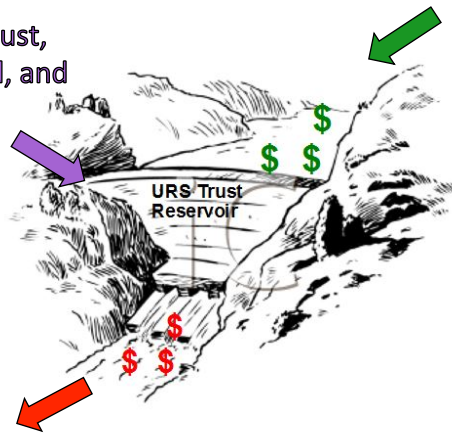
Why Should I Care?



Utah Retirement Systems

Like a Reservoir of Shared Funds for Members...

1. Funds are held in trust, professionally managed, and invested.



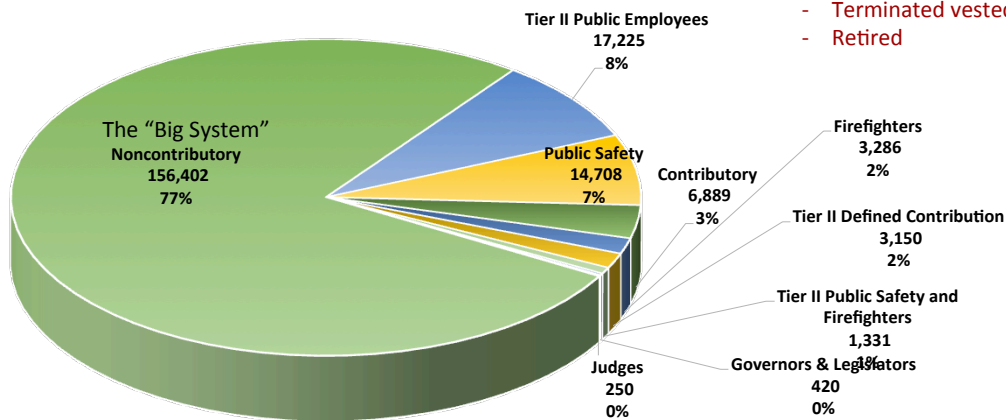
2. Employer and employee contributions are deposited each pay period during working years; fund investment returns are also added.

3. Funds are paid out monthly by formula, during retirement years.

URS – Membership in Systems

Total System Membership: 203,661
(12/31/2014)

Total Membership Includes:
 - Active (currently employed);
 - Terminated vested; and
 - Retired

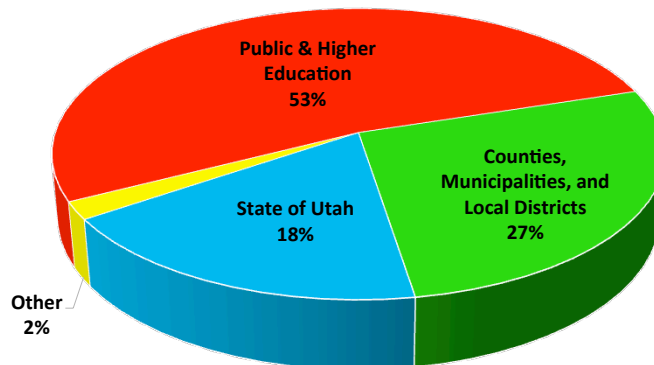


Source: Utah Retirement Systems Comprehensive Annual Financial Report for the year ending December 31, 2014



URS – Membership by Employer Type

Active Membership: 103,714
As of December 31, 2014

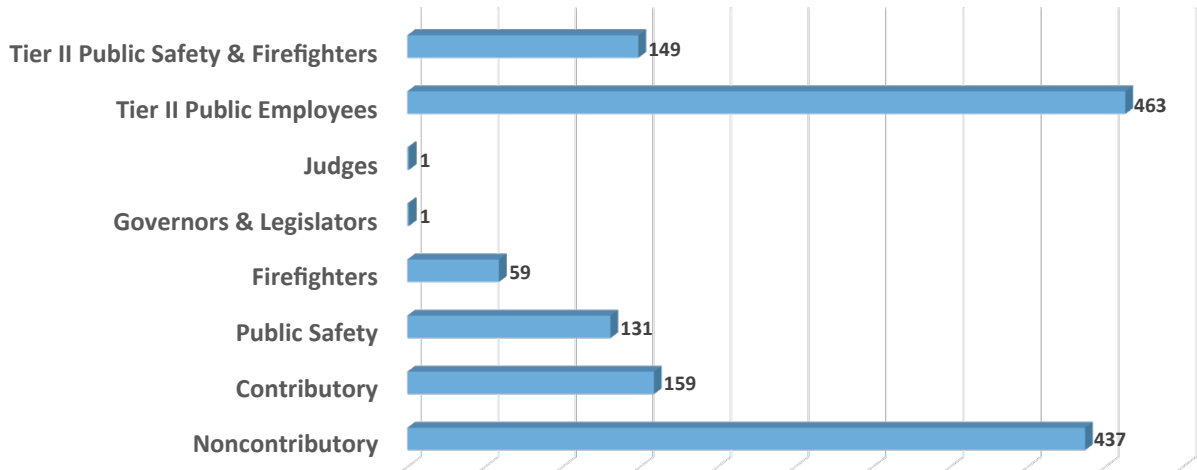


Source: Utah Retirement Systems, June 2, 2015



URS – Participating Employers

Total Participating Employers: 467



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2010 Utah Retirement Reforms*

**Beginning July 1, 2010, for postemployment restrictions and
July 1, 2011, for new-employee retirement systems**

- **Provide stricter postretirement reemployment restrictions**
 - Prohibit collecting a retirement allowance while receiving any employer retirement contribution or earning additional service credit and
 - One-year employment separation requirement after retirement (certain exceptions may apply).
- **No retirement benefit change for existing public employees (Prospective Only)**
- **For new public employees:**
 - Reduced retirement benefits and
 - Provide set employer contribution amounts (10% of salary for public employees and 12% of salary for public safety and firefighter employees) (a death benefit amount and a Tier I amortization is also added).
- **Use part of the savings to pay unfunded liability for the old retirement systems (Tier I amortization)**

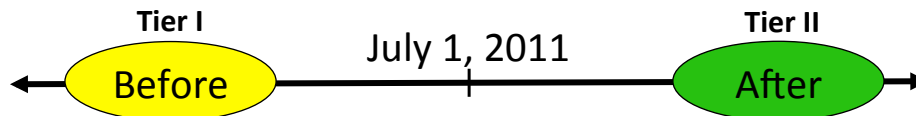
*2010 General Session: S.B. "New Public Employees' Tier II Contributory Retirement Act" S.B. 43, "Post-Retirement Employment Amendments"
Both bills passed March 1, 2010, and became effective on July 1, 2010

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2010 Utah Retirement Reforms

Tier I or Tier II – based on date of employment

Employees who initially enter regular full-time employment



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

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



2010 Utah Retirement Reforms – Key Provisions

Beginning July 1, 2011

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

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

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

Sample FY 2016 Employer Contribution Rates:

20.02% for Tier II public employees' hybrid (state and school)
 (20.02% = 10% + 0.08% death benefit + 9.94% Tier I amortization)
 22.19% for Tier I public employees' noncontributory (state and school)

30.54% for Tier II public safety (state)
 (30.54% = 12% + 0.08% death benefit + 18.46% Tier I amortization)

41.35% for Tier I public safety noncontributory (state)

Source: Utah Retirement Systems Contribution Rates FY 2015-2016



URS – Systems

Participant Systems

Tier I Systems (Six Participant Systems)

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

Tier II Systems (Two Participant Systems)

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



Tier I System Formula Comparison

	Public Employees' Non-contributory	Public Safety Non-contributory and Firefighters'	Judges' Non-Contributory
Service Benefit Formula	2% (for all years) x FAS	2.5% x FAS x 1 st 20 years 2% x FAS x years above 20	5% x FAS x 1 st 10 years 2.25% x FAS x 2 nd 10 years 1% x FAS x years above 20
Final Average Salary	Average of highest 3 years	Average of highest 3 years	Average of highest 2 years
Cost of Living Adjustment	Up to 4% annually (CPI) (Simple) after 1 year	Up to 4% annually (CPI) (Simple) after 1 year	Up to 4% annually (CPI) (Compounded) after 1 year
Employer DC Benefit	State/School: 1.5% Local: Optional	State: None Local: Optional	None

Source: S.B. 63, 2010 General Session, "New Public Employees' Tier II Contributory Retirement Act"
Title 49, Utah State Retirement and Insurance Benefit Act



Tier I Eligibility for Retirement Comparison

	Public Employees' Non-Contributory	Public Safety Non-Contributory and Firefighters Contributory	Judges' Non-Contributory
Eligibility for Retirement	Any age 30 yrs Age 60 20 yrs** Age 62 10 yrs** Age 65 4 yrs Any age 25 yrs***	Any age 20 yrs Age 60 10 yrs Age 65 4 yrs	Any age 25 yrs Age 55 20 yrs* Age 62 10 yrs Age 70 6 yrs

*FAR – full actuarial reduction

**AR – actual reduction

***FAR or employee/employer purchase of up to 5 years immediately prior to retirement

Source: S.B. 63, 2010 General Session, "New Public Employees' Tier II Contributory Retirement Act"
Title 49, Utah State Retirement and Insurance Benefit Act



Tier II System Formula Comparison

	New Public Employees' Contributory Hybrid	New Public Safety and Firefighters Contributory Hybrid	Judges Non-Contributory	Defined Contribution Public Employees' & Public Safety and Firefighters
Service Benefit Formula	1.5% x FAS	1.5% x FAS	5% x FAS x 1 st 10 year 2.25% x FAS x 2 nd 10 years 1% x FAS x above 20 years	N.A.
Final Average Salary	Average of highest 5 years	Average of highest 5 years	Average of highest 2 years	N.A.
Cost of Living Adjustment	Up to 2.5% annually (CPI) (Simple) after 1 year	Up to 2.5% annually (CPI) (Simple) after 1 year	Up to 4% annually (CPI) (Compounded) after 1 year	N.A.
Employer DC Benefit	% left of 10% after funding DB	% left of 12% after funding DB	None	10% Public employees 12% Public Safety & Firefighters

Source: S.B. 63, 2010 General Session, "New Public Employees' Tier II Contributory Retirement Act"
Title 49, Utah State Retirement and Insurance Benefit Act



Tier II Eligibility for Retirement Comparison

	New Public Employees' Contributory Hybrid	New Public Safety and Firefighters Contributory Hybrid	Judges' Non-Contributory	Defined Contribution Public Employees' & Public Safety and Firefighters
Eligibility for Retirement	Any age 35 yrs Age 60 20 yrs* Age 62 10 yrs* Age 65 4 yrs Any age 25 yrs* **	Any age 25 yrs Age 60 20 yrs* Age 62 10 yrs* Age 65 4 yrs **	Any age 25 yrs Age 55 20 yrs* Age 62 10 yrs Age 70 6 yrs	Fully vested after 4 years of service credit

*FAR – full actuarial reduction

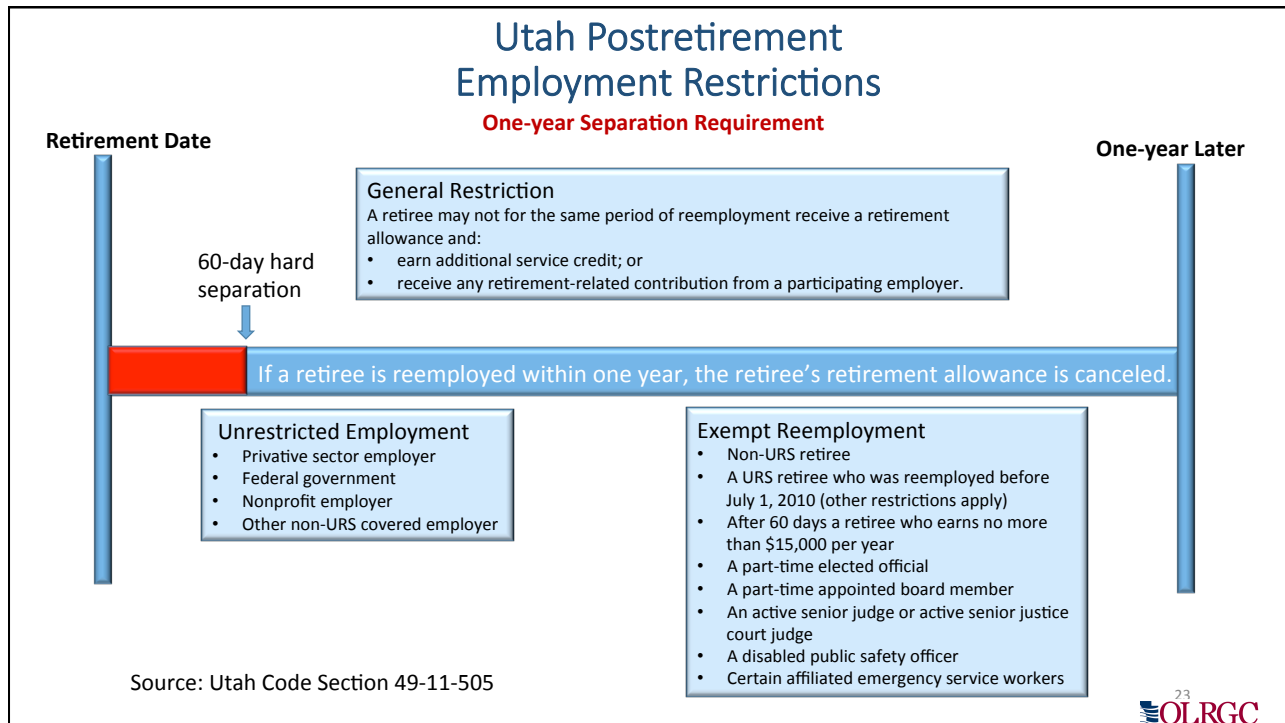
**Optional employee/employer purchase of up to 5 years immediately prior to retirement

Source: S.B. 63, 2010 General Session, "New Public Employees' Tier II Contributory Retirement Act"
Title 49, Utah State Retirement and Insurance Benefit Act

Why Postretirement Employment Restrictions?

Restrictions are used to help keep retirement costs down

- Reduce incentives to retire immediately upon reaching eligibility.
- Extend the pay-in period for contributions and investment earnings.
- Decrease the pay-out period for retirement allowances.



What Adjustments have been made to Postretirement Employment Restrictions Since 2010?

- 2011 – allowed reemployment after 60 days if the retiree does not earn more than \$15,000 and does not receive any employer paid benefits
- 2013 – allowed employees who are also part-time elected officials or part-time board members to retire without having to leave office

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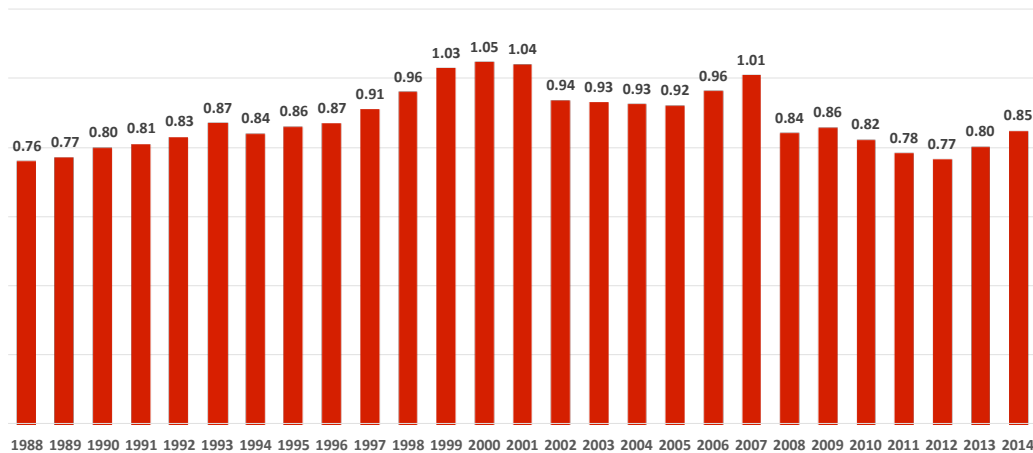
What Adjustments have been made to Postretirement Employment Restrictions Since 2010? – Continued

- 2014 – allowed a reemployed public safety retiree to be considered as having completed the one-year separation if the retiree suffered a career ending injury while on duty
- 2014 – exempted an active senior justice court judge and a part-time board member from postretirement employment restrictions
- 2015 – exempted an affiliated emergency service workers who do not receive more than \$500 per month in remuneration

URS – Funded Ratio History

All Systems

Funded Ratio = value of assets/accrued liability

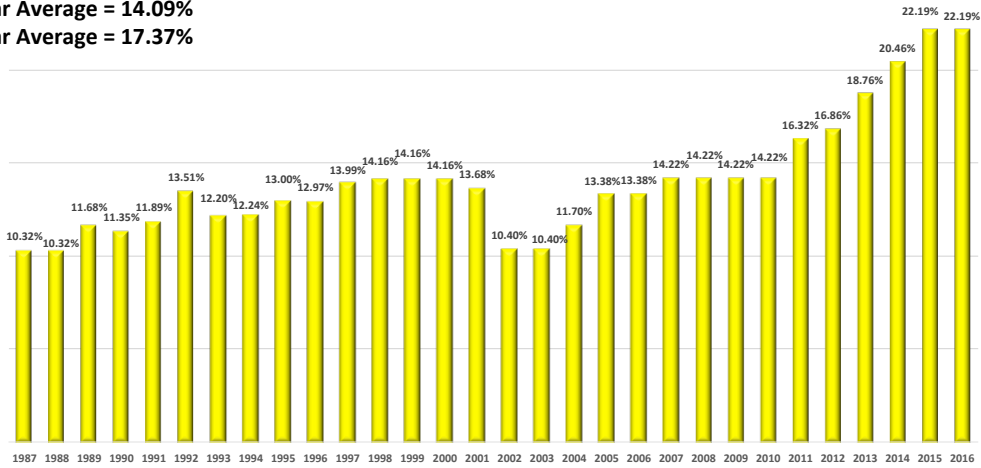


Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2001 to 2014 – for the year ending December 31.

Public Employees' Noncontributory Contribution* Rate History

State and School - Percentage of Salary

30 Year Average = 14.09%
10 Year Average = 17.37%

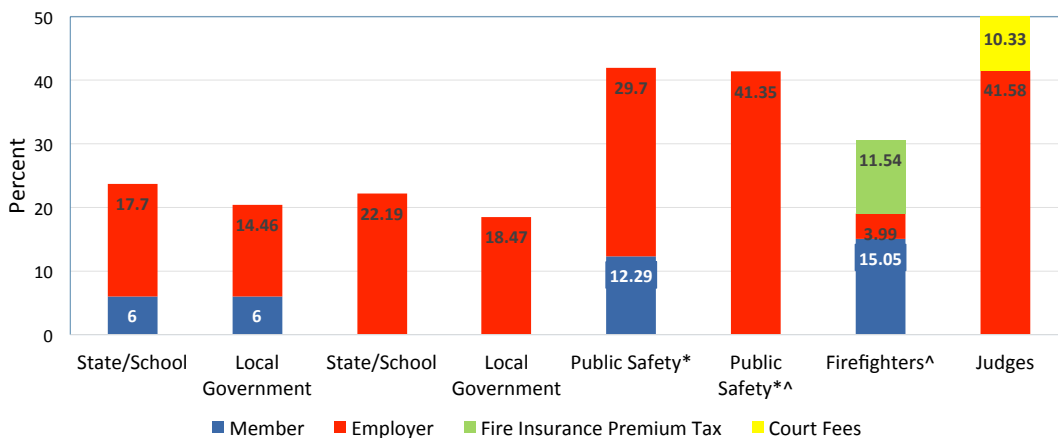


*Does not include the required 1.5% 401(k) contribution
Source: Utah Retirement System



URS – Tier I Contribution Rates

FY 2016 – Percentage of Salary

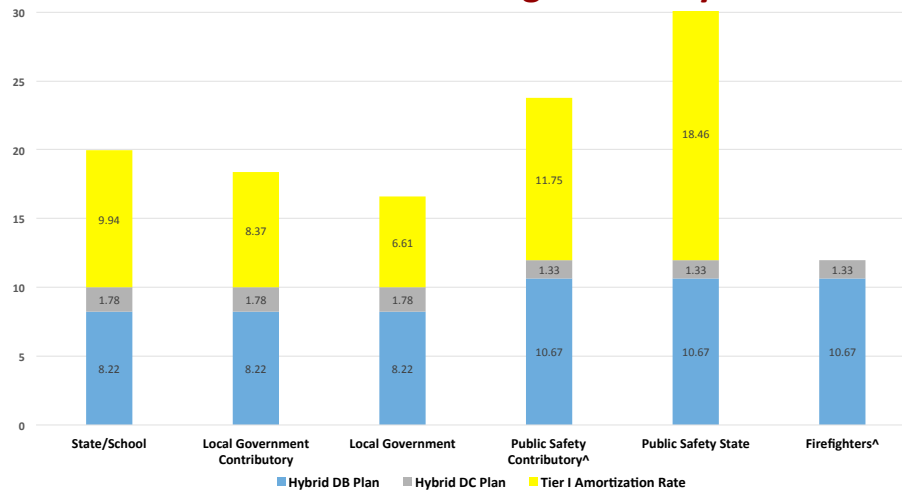


*State Employees with 4% COLA ^ State Employees with Social Security (Division A) only
Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2015 – June 30 2016.



URS – Tier II Contribution Rates*

FY 2016 – Percentage of Salary



*Death Benefit rate not included (0.08% for public employees and 0.08% for public safety and firefighters)
[^]Employees with Social security (Division A) with 2.5% COLA
 Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2015 – June 30 2016.

Board Rate vs. ARC

- Tier 1, “Big System” for State & School
 - BCR -- 22.19
 - ARC -- 18.86
 - Difference -- 3.33

Summary & Conclusion

- Many difficult to project factors influence retirement liability and contributions
 - Benefits mix
 - Investment returns
- Utah reformed it's pension program beginning in 2011 to reduce long-term liability
- Market risk and volatility, especially in 2008, led to a funded ratio of 80%-85%
- Despite reforms, employer contribution rates more than doubled since 2003
- A certified contribution rate that is currently higher than the annual required contribution tends to mask out-of-pocket costs for retirement changes