Why We Are Here

As a result of last year's HB77, I had received conflicting data from URS regarding the Rehiring of Retirees. In their defense, some of the employers were not reporting the data that was required to them. As a result, House & Senate Leadership authorized a Working Group that was OPEN to the public to study the issues more in-depth. The Working Group was comprised of three Senators and four Representatives.

Over the summer and fall in those meetings we listened to testimony, requested and reviewed additional data, and sent out surveys to participating employers throughout the state. The results of which are in front of you in the form of theses four bills: HB47, HB50, HB86, and HB117 which were all presented and debated in November in the Retirement & Independent Entities Interim Committee.

Our Challenges

- Attracting
- Hiring
- Retention

In talking to a department head with a state organization, they said….

"they are promoting people that 5-8 years ago that they would never have promoted just to retain employees."

RETIREMENT WORKING GROUP

Wednesday, July 8, 2015 – 1:00 P.M. – Room 20 House Building

Audio Recording: listen beginning at **1:47:25**

http://utahlegislature.granicus.com/MediaPlayer.php?view_id=2&clip_id=19016&meta_id=558292#

Patti Harrington says,

"….The first point is the most troubling. We have two rural districts in the state of Utah that have actually hired teachers who were dismissed in other districts. They were not dismissed for moral turpitude, but they were dismissed because they were inadequate teachers…."

Sampling of Current Teacher Shortages
July 8, 2015
Dr. Patti Harrington, Executive Director, Utah School Superintendents Association
(Enrollment figures from 2012-2013)

Note: Two rural districts have had to hire teachers who have lost their jobs in other districts, as they had no other "highly qualified" applicants (per NCLB) in the needed content areas.

Rich – 491 students
Still needed: Social Studies
Speech and Language

Beaver – 1540 students
We have been trying to hire a Physical Science teacher since March 2015. Even a signing bonus of $2500 was overlooked.
We also need teachers for:

- Early Childhood
- Special Education, especially for secondary schools
- Instructional Technology

We have been fortunate with the Level IV math but we had to offer a $10,000 signing bonus to secure the last one we hired.
We have plenty of applications for two administrative positions.

Logan – 6120 students

- In our elementary pool we used to have 300+ applications each year. We are down to approximately 80 per year.
- Most of our quality candidates are hired by May whereas in the past, we could find quality candidates through July.
- We struggle filling kindergarten and early elementary positions.
- In the secondary schools, we struggle with math positions, and started last year without a business or engineering teacher. This year we are short in Science, French, Orchestra, and Choir.
- More recently, we have had to put 7-8 teachers on "letters of authorization" to teach outside of their licensed area, as opposed to 1-2 that had letters in previous years.
- We generally have 3 Alternative Route to Licensure (ARL) candidates per year, which can bring a variety of challenges.

Nebo – 29,724 students
We have historically hired between 200-250 teachers as year, and we expect that number to go up as we continue to grow and begin to see increased retirement of teachers who have taught beyond 30 years. We have shortages in Special Education: Mild/Moderate and Severe/Profound, Math, most Sciences, Speech, Family and Consumer Science, and many Career and Technology Education positions. We are also seeing diminished quality of candidates in other areas (ie, we have applicants for Elementary Education positions, but the quality of the candidates is not as strong as it has been).

Uintah – 6,993 students
Fifteen teaching positions were not filled last year, primarily in math and special education. We had to increase class sizes and add four aides to accommodate the students. Last year we hired 14 Alternate Route to Licensure (ARL) teachers. They worked hard but it takes the most resources, energy, and professional development to help them learn classroom management and other skills of teaching.

We needed 68 teachers this year, which includes the missing 15 from last year. Today we still have 20 open positions.

It would be very helpful to have retirees as teachers.

Last year we asked retirees to come in as substitutes and help mentor our Alternative Route to Licensure teachers. It was still very challenging for all concerned. We would greatly benefit our students if we could hire retirees in our area.

Weber – 30,423 students
1) During the past school year (2014-15) we hired seven student teachers as "Emergency Hires" which means they were not able to experience a true student teaching experience.
2) We currently have 21 openings still pending in our district.
3) We have engaged in out-of-state recruiting in Michigan, Oregon and Idaho. These recruiting trips have resulted in 15 teachers being hired into our district from out-of-state.

Our experience is that the shortage is becoming more severe. We are becoming much more aggressive in recruiting trips and out-of-state hires.

Canyons – 33,490 students
Each year it is becoming more and more difficult to hire teachers. It is even more difficult to hire quality teachers by whom you would want your own children and grandchildren to be taught. We want teachers who are going to make a difference in the lives of our students.

The number of candidates entering college to become educators is dramatically down across the state as well as the nation. As I have encouraged students just graduating from high school to become teachers their response is often they would love to teach but the profession does not pay enough to support a family.

We hire approximately 250 new licensed educators each year in Canyons School District. In an effort to hire quality teachers we have had to expand our recruiting efforts out of state. This past year we have recruited at all Utah state universities, Brigham Young University as well as at educator fairs in Illinois, Michigan, Montana, Oregon, Pennsylvania and Washington. We have also recruited through electronic campaigns pushing out across the nation through Teachers-Teachers.com as well as sought assistance through USOE when hiring Dual Immersion teachers from France, Spain and China.

In an effort to attract educators from out of state Canyons School District's Board of Education authorized relocation stipends to educators currently living 100 miles or more from Canyons District:

100 to 199 miles	$250
200 to 299 miles	$500
300 to 399 miles	$750
400+ miles	$1000

As of today we still have approximately 15 openings in the areas of Math, Science, Performing Arts, Early Childhood Education, Elementary Education and other miscellaneous positions. We are cautiously optimistic that we will be able to fill these positions before school begins but are making contingency plans if not.

Any efforts by the legislature would be greatly appreciated.

Davis – 67,738 students

Elementary Education – difficult to hire for Foreign Language Immersion, Kindergarten and part-time positions. We've hired 106 new elementary teachers to date. Although we still have a candidate pool from which to select, we anticipate our need to hire will continue and we may run short of excellent candidates. We are receiving very few new applications for employment currently. Note: Principals are beginning to complain about the quality of applicants left to hire.

Secondary Education – difficult to hire for Foreign Language Immersion, Science, Math, and CTE positions. DSD has hired approximately 110 teachers/counselors to date and has 10 current vacant positions. The applicant pool is okay except in math, science and technology education.

Special Education and Related Services – difficult to fill all areas. Although we are doing well currently with Mild/Moderate positions that is due in large part to our early hiring. We've hired 5 Pre-School Special Ed Teachers, 7 Psychologists, 8 SLP's, 1 Audiologist, and 23 Special

Education Teachers. Candidate pool is shallow in the following areas: OT, Severe Special Ed, Certified Occupational Therapy Assistants, Psychologists, SLP's.

As the economy continues to improve and more teachers retire, we anticipate our demand will continue to grow. Further, we have significant concerns about the lack of students choosing to enter the field of education.

Granite - 67,736 students
Report by Ben Horsley, Director of Communications and Community Outreach

Utah Department of Corrections

Department openings:

- We have continuous recruitments open for registered nurses, physician assistant, psychiatrist and medical doctors. These and other currently open positions are listed at statejobs.utah.gov and include accounting technician III, e-learning instructional designer, and office specialist I.

Officer openings:

- Officer openings at the Central Utah Correctional Facility: **60 FTE**
- Officer openings at the Utah State Prison: **119 FTE**

Openings at Adult Probation and Parole:

- Correctional Officer: **14**
- Agent: **31**
- Supervisor: **3**

Utah Highway Patrol

<u>Trooper openings</u>:

- We currently have **27 vacant** Trooper positions.
- Our last recruitment was approximately **only 120 applicants**. (This is a very, very LOW applicant pool.)
- Out of those applicants, we will be lucky to get **8 to 10 qualified** cadets to start at the Academy in March. (If they all successfully graduate from the Academy, they will be on the road by September.)
- That still leaves UHP **14 Troopers SHORT**. (And there will be more vacancies by then.)
- It takes UHP approximately **1 year to fill** one vacant position.

<u>Solving The Financial Problems At URS</u>

According to the Auditor General ***<u>(stated) in the very first sentence of the Introduction</u>*** section of the Audit Report:

> *"Utah Retirement Systems (URS) recently sustained significant losses to the economic downturn."*

(page 1, OLAG Performance Audit of the Cost of Benefits for the Reemployed Retirees and Part0time Employees, November 2009)

<u>Solving The Financial Problems At URS</u>

According to the Auditor General:

*"Given the current economic conditions, **<u>eliminating or restricting</u>** the high cost benefits discussed in the coming chapters could go a long way in helping URS. However, any cost savings implemented **<u>would not solve</u>** all of the current financial difficulties experienced by URS."*

(page 2, OLAG Performance Audit of the Cost of Benefits for the Reemployed Retirees and Part0time Employees, November 2009)

DOUBLE DIPPING

"Double Dipping" as defined by the OLAG:

"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."

(page 1, OLAG Performance Audit of the Cost of Benefits for the Reemployed Retirees and Part-time Employees, November 2009)

Double Dipping

- Statutes prior to the passage of SB 43 in 2010 allowed "Double Dipping."
- Following the enactment of SB 43 in 2010 the Statutes allowed "Double Dipping."
- The bills we came here today to discuss allow "Double Dipping;"
- The report recommendation contained in the Auditor Genreal's performance audit include the authorization to continue the practice of "Double Dipping."

WHAT SB 43 ADDRESSED

- Retirees were returning (sometimes immediately) to work, often at the same place and even the same job. This is sometimes referred to as "Retiring in Place."

- Rehired retirees were able to continue to get the 401(k) and 457 employer's match 401(k) rates were between 11 and 39% of salary. (page 2, OLAG Performance Audit of the Cost of Benefits for the Reemployed Retirees and Part0time Employees, November 2009)

WHAT SB 43 ADDRESSED

- Part-time employees would change to full-time the last couple of years and then get full time service credits for all the part-time years.

- Employers were continuing to pay for benefits for part-time employees at the same level as full-time employees

Changes to Key Utah Post–Retirement Reemployment Provisions

	Law Before the 2010 Changes	Current Law (S.B.043)	H.B.047 (proposed)	H.B.050 (proposed)	H.B.086 (proposed)	H.B.117 (proposed)	S.B.036 (proposed)
Who may return to work after retirement?	A retiree who returns to work at a different agency. OR A retiree who is reemployed by the same agency after six months from the retirement date. OR A retiree of an agency who is reemployed by the same agency within six months of retirement, if reemployed on less a part-time basis by the same agency and earnings are limited.	A retiree who has completed one year of separation from all participating employers from the retirement date. OR A retiree who has 60 days of separation, if no employer benefits are provided and calendar year earnings are limited ($15,000 or ½ of the retiree's final average salary).	The proposed legislation provides an exemption to the reemployment of retiree restrictions to allow a retiree to be reemployed in a rural employment position or as an educator at a Title I school. To qualify for this exemption, the retiree must not be reemployed for at least 60 days from their retirement date and be reemployed by a different employer.	The proposed legislation would increase the earnings limit to be the lesser of $20,000 or 50% of the member's FAS. To qualify for this exemption, the retiree must not be reemployed for at least 60 days from their retirement date and be reemployed by a different employer.	The proposed legislation would exempt a retiree from the earnings limit ($15,000 or 50% of FAS.) To qualify for this exemption, the retiree must not be reemployed for at least 60 days from their retirement date and be reemployed by a different employer.	The proposed legislation provides an exemption to the reemployment of retiree restrictions to allow a retiree to continue receiving their retirement allowance if they become employed as an educator at a Title I school. To qualify for this exemption, the retiree must not be reemployed for at least 60 days from their retirement date and be reemployed by a different employer.	The proposed legislation would exempt a retiree from the earnings limit ($15,000 or 50% of FAS) if they become reemployed as an educator (as defined under Section 53A-6-103), public safety service employee, or firefighter service employee. To qualify for this exemption, the retiree must not be reemployed for at least 60 days from their retirement date and be reemployed by a different employer or agency.
What do retirees who return to work after retirement receive and what is required or prohibited from the employer?	The retiree receives: • Salary; • A monthly retirement allowance; and • An employer contribution into the retiree's defined contribution plan (e.g. 401(k)) of the same percentage of the retiree's salary that would have been required to be contributed if the retiree were an active member, up to the amount allowed by federal law. The working retiree may not earn additional service credit while receiving a retirement allowance.	The retiree receives: • Salary; and • A monthly retirement allowance. A retiree may not earn additional service credit or receive any retirement-related contribution from a participating employer while receiving a retirement allowance. The participating employer pays the amortization rate for the reemployed retiree who has completed the one-year separation.	The retiree receives: • Salary; and • A monthly retirement allowance. The reemployed retiree shall not receive any employer paid retirement benefits, including additional service credit or a retirement related contribution. The participating employer pays the certified contribution rate to the office as if the retiree's reemployed position were considered to be an eligible, full-time position within that system.	The retiree receives: • Salary; and • A monthly retirement allowance. The reemployed retiree shall not receive any employer paid retirement benefits, including additional service credit or a retirement related contribution. The participating employer pays the certified contribution rate to the office as if the retiree's reemployed position were considered to be an eligible, full-time position within that system.	The retiree receives: • Salary; and • A monthly retirement allowance. The reemployed retiree shall not receive any employer paid retirement benefits, including additional service credit or a retirement related contribution. The participating employer pays the certified contribution rate to the office as if the retiree's reemployed position were considered to be an eligible, full-time position within that system.	The retiree receives: • Salary; and • A monthly retirement allowance. The reemployed retiree shall not receive any employer paid retirement benefits, including additional service credit or a retirement related contribution. The participating employer pays the certified contribution rate to the office as if the retiree's reemployed position were considered to be an eligible, full-time position within that system.	The retiree receives: • Salary; and • A monthly retirement allowance. The reemployed retiree shall not receive any employer paid retirement benefits, including additional service credit or a retirement related contribution. The participating employer pays the certified contribution rate to the office as if the retiree's reemployed position were considered to be an eligible, full-time position within that system.

Changes to Key Utah Post–Retirement Reemployment Provisions

	Law Before the 2010 Changes	Current Law (S.B.043)	H.B.047 (proposed)	H.B.050 (proposed)	H.B.086 (proposed)	H.B.117 (proposed)	S.B.036 (proposed)
Who may retire in place?	The Commissioner of Public Safety, an elected sheriff, or an appointed chief of police .	No URS members.	No URS members.	No URS members.	No URS members.	No URS members.	No URS members.
What do those who retire in place receive and what is required or prohibited from the employer?	The retiree receives: • Receives salary; • Receives a monthly retirement allowance; • May continue in the elected or appointed position; and • May file for an exemption from retirement coverage, which qualifies them for an employer contribution into the retiree's defined contribution plan (e.g. 401(k)) of the same percentage of the retiree's salary that would have been required to be contributed if the retiree were an active member, up to the amount allowed by federal law. The working retiree may not earn additional service credit while receiving a retirement allowance.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	Not applicable.

Incentives for Early Retirement

The Actuary indicates the Work After Retirement (WAR) clauses do have a significant impact on member decisions of when to retire and goes on to indicate a significant influence (inherently) built-in to the retirement language. The Actuary explained:

> *"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."*

(page 9, OLAG Performance Audit of the Cost of Benefits for the Reemployed Retirees and Part0time Employees, November 2009)

FUNKY FISCAL NOTES

- Built in incentive to retire at 30 years
- 2 examples   person retires at 30 years receives retirement allocation of $2,500 per month or $180,000 over the next 6 years.
- Instead he works for another 6 years and then retires. Receives a retirement allotment of $3,795 or an increase of $1,295.
- How many years have to work to earn the $180,000.
- Divide $180,000 by increase amount of 1,295 -- will take him over 11 years to make back the lost $180,000

IMPACT OF INCREASED CONTRIBUTION RATE ON EMPLOYERS

- Since 2010 the contribution rate has increased by over 81%.
- Using URS's budget documents we determined that the 81% increase translates into between 15% to 30% increase in salary costs to employers.

DATE JULY 1 - JUNE 30	URS CONTRIBUTION HISTORY - STATE AND SCHOOL CONTRIBUTORY SYSTEM						NONCONTRIBUTORY SYSTEM (Does Not Include 1.5% DC)	% CHANGE
	MEMBER	% CHANGE	EMPLOYER	% CHANGE	TOTAL	% CHANGE		
77 * 78	8.15		8.15		16.30			
78 79	9.20	12.88%	9.20	12.88%	18.40	12.88%		
79 - 80	8.95	-2.72%	8.95	-2.72%	17.90	-2.72%		
80 - 81	8.95	0.00%	8.95	0.00%	17.90	0.00%		
81 - 82	8.95	0.00%	8.95	0.00%	17.90	0.00%		
82 - 83	8.95	0.00%	8.95	0.00%	17.90	0.00%		
83 - 84	6.50	-27.37%	6.50	-27.37%	13.00	-27.37%		
84 - 85	6.00	-7.69%	6.00	-7.69%	12.00	-7.69%		
85 - 86	6.00	0.00%	6.00	0.00%	12.00	0.00%		
86 - 87	6.00	0.00%	6.00	0.00%	12.00	0.00%	10.32	
87 - 88	6.00	0.00%	6.00	0.00%	12.00	0.00%	10.32	0.00%
88 - 89	6.00	0.00%	7.11	18.50%	13.11	9.25%	11.68	13.18%
89 - 90	6.00	0.00%	6.37	-10.41%	12.37	-5.64%	11.35	-2.83%
90 - 91	6.00	0.00%	6.91	8.48%	12.91	4.37%	11.89	4.76%
91 - 92	6.00	0.00%	8.95	29.52%	14.95	15.80%	13.51	13.62%
92 - 93	6.00	0.00%	7.88	-11.96%	13.88	-7.16%	12.2	-9.70%
93 - 94	6.00	0.00%	7.92	0.51%	13.92	0.29%	12.24	0.33%
94 - 95	6.00	0.00%	8.68	9.60%	14.68	5.46%	13	6.21%
95 - 96	6.00	0.00%	8.65	-0.35%	14.65	-0.20%	12.97	-0.23%
96 - 97	6.00	0.00%	9.67	11.79%	15.67	6.96%	13.99	7.86%
97 - 98	6.00	0.00%	9.67	0.00%	15.67	0.00%	14.16	1.22%
98 - 99	6.00	0.00%	9.67	0.00%	15.67	0.00%	14.16	0.00%
99 - 2000	6.00	0.00%	9.67	0.00%	15.67	0.00%	14.16	0.00%
00 - 01	6.00	0.00%	9.19	-4.96%	15.19	-3.06%	13.68	-3.39%
01 - 02	6.00	0.00%	5.91	-35.69%	11.91	-21.59%	10.4	-23.98%
02 - 03	6.00	0.00%	5.91	0.00%	11.91	0.00%	10.4	0.00%
03 - 04	6.00	0.00%	7.21	22.00%	13.21	10.92%	11.7	12.50%
04 - 05	6.00	0.00%	8.89	23.30%	14.89	12.72%	13.38	14.36%
05 - 06	6.00	0.00%	8.89	0.00%	14.89	0.00%	13.38	0.00%
06 - 07	6.00	0.00%	9.73	9.45%	15.73	5.64%	14.22	6.28%
07 - 08	6.00	0.00%	9.73	0.00%	15.73	0.00%	14.22	0.00%
08 - 09	6.00	0.00%	9.73	0.00%	15.73	0.00%	14.22	0.00%
09 - 10	6.00	0.00%	9.73	0.00%	15.73	0.00%	14.22	0.00%
10 -11	6.00	0.00%	11.83	21.58%	17.83	13.35%	16.32	14.77%
11 - 12	6.00	0.00%	12.37	4.56%	18.37	3.03%	16.86	3.31%
12 - 13	6.00	0.00%	14.27	15.36%	20.27	10.34%	18.76	11.27%
13- 14	6.00	0.00%	15.97	11.91%	21.97	8.39%	20.46	9.06%
14 - 15	6.00	0.00%	17.70	10.83%	23.70	7.87%	22.19	8.46%
15 - 16	6.00	0.00%	17.70	0.00%	23.70	0.00%	22.19	0.00%

growth between 2000 and 2010	0.62%
growth between 2010 and 2016	81.91%

growth between 1978 and 2010	19.39%

1977 / 1978 to 2010		2010 / 2011 to 2015/2016	
high	9.73%	high	17.70%
low	5.91%	low	11.83%

BETWEEN 2000-04 TO NOW CONTRIB RATE HAS NOT FALLEN BELOW THE PREVIOUS year's rate

Retirement Unfunded Liability

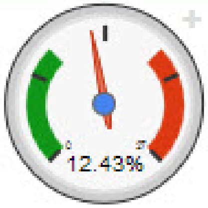
Show History

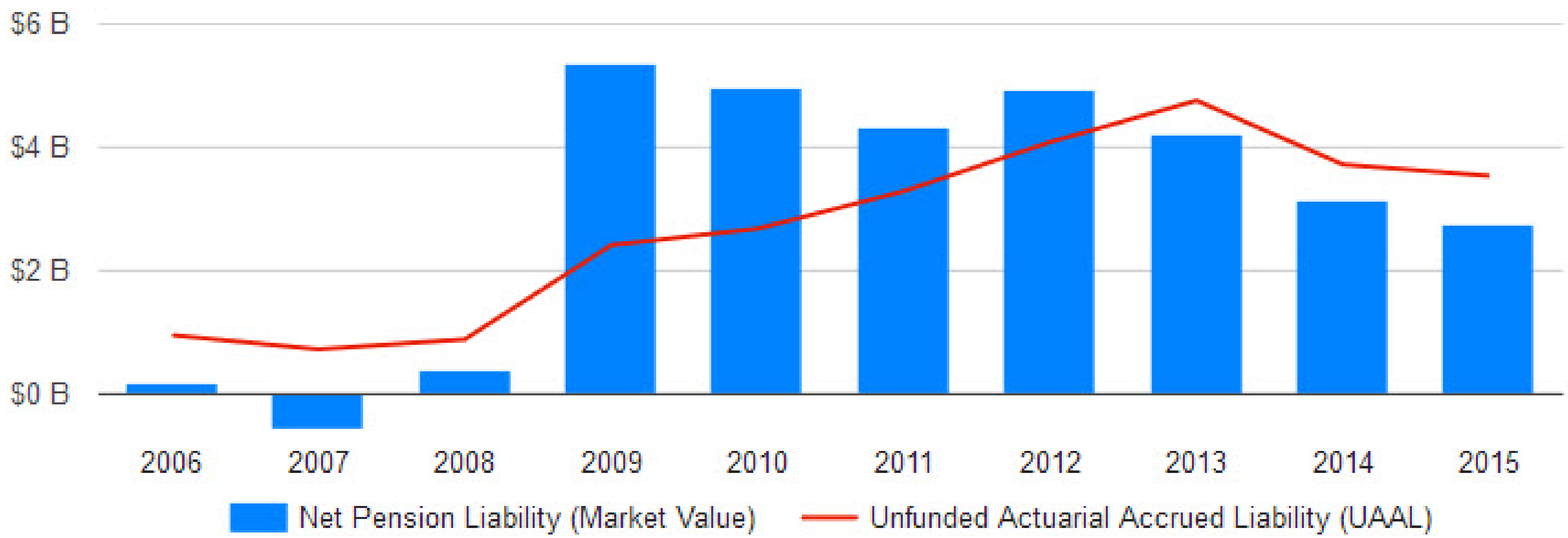
$2.7 B

Most Recent

⇩12.9%

Change





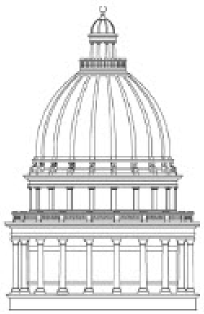
Many Factors Influence Net Position

OLRGC

REPORT TO THE

UTAH LEGISLATURE

Number 2015-03

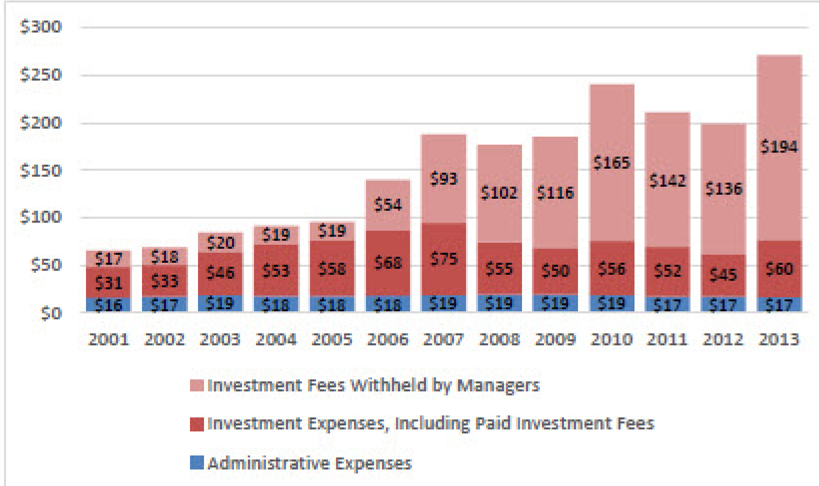


A Performance Audit of URS' Management and Investment Practices

May 2015

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

Figure 4.1 Total Operating Costs Over Time, Shown in Millions. Administrative and investment costs are shown as reported in the CAFR. Investment fees withheld by managers are also shown.



Adjusted for Inflation to reflect 2013 dollar values.
Source: URS CAFRs, URS internal documents

Figure 4.1 shows that investment fees withheld by managers have increased significantly over time. This increase has occurred because URS has invested increasingly more assets in alternative investments, which are associated with higher fees.

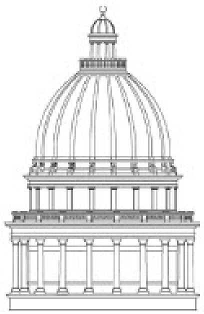
Investment fees withheld by managers have increased significantly over time because URS has invested increasingly more assets in alternative investments.

The net increase in Investment Fees <u>paid</u> by URS due to increased positions in Alternative Investments for the years 2006 thru 2013 is approximately **<u>$850,000,000</u>**.

REPORT TO THE

UTAH LEGISLATURE

Number 2015-03



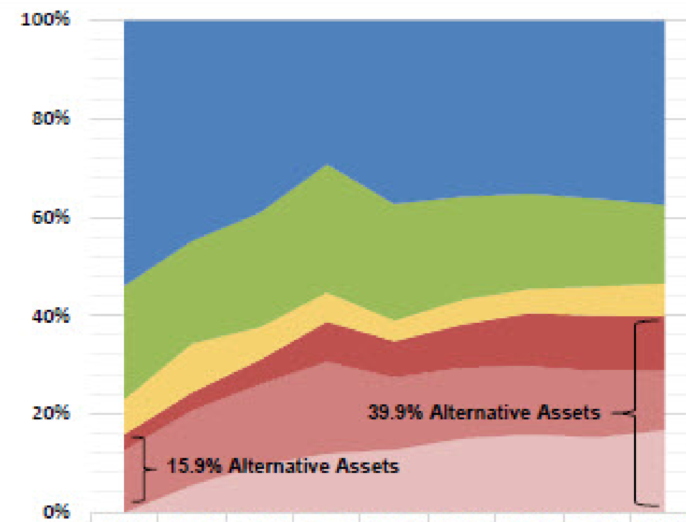
A Performance Audit of URS' Management and Investment Practices

May 2015

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

From 2005 to 2013, alternative assets grew from 15.9 percent to 39.9 percent of total URS DB assets.

Figure 3.1 Asset Allocation for the Defined Benefit Plan. The DB plan allocation to alternative investment has grown from 16 percent in 2005 to 40 percent in 2013.



	2005	2006	2007	2008	2009	2010	2011	2012	2013
Equities Securities	53.9%	44.8%	39.1%	29.2%	37.3%	35.8%	35.2%	36.2%	37.5%
Debt Securities	23.1%	20.9%	23.3%	26.1%	23.7%	21.0%	19.4%	17.9%	16.0%
Short-term Securities	7.1%	9.9%	6.6%	5.9%	4.2%	5.0%	4.9%	5.9%	6.6%
Private Equity	3.3%	3.7%	5.0%	8.2%	7.4%	8.8%	10.8%	11.3%	11.0%
Real Assets	12.6%	15.2%	16.4%	18.7%	14.7%	14.4%	13.9%	13.5%	12.2%
Hedge Funds	0.0%	5.5%	9.6%	11.9%	12.7%	15.0%	15.8%	15.2%	16.7%

Source: URS Comprehensive Annual Financial Reports (CAFRs)

Using the same managers, but maintaining the 2004 asset allocation, URS theoretically would have had $1.34 billion in additional assets, as shown in "*URS Allocation vs. 2004 Allocation, Savings*." This is based on a model growth of 111.6% vs. 102.4% for the actual portfolio. The 7-year number, which also includes the 2008 crash, is similar at $1.31 billion. The 5-year number catches big stock runs without the crash and comes in at $2.08 billion. The 3-year number is only $139 million better. For 2013 alone, the original allocation was better by $480 million.

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

June 30, 2015

Mr. Daniel D. Andersen
Executive Director
Utah Retirement Systems
540 East 200 South
Salt Lake City, Utah 84102-2099

Re: Preliminary Assessment of the Fiscal Impact of SB 43 that was Enacted in 2010

Dear Dan:

We have had some discussions about the fiscal impact of SB 43 that became effective July 1, 2010. Given this is over four years ago, there is now experience and data to analyze changes in return-to-work behavior. The information below provides a preliminary estimate of the fiscal impact that SB 43 has had on the Retirement System.

SB 43 had a fiscal impact to URS in two ways. First, it altered the retirement behavior for many members, in that many members have delayed the age at which they commenced their retirement benefit. Secondly, the retirement system now collects funds on the payroll of working retirees who commenced their retirement benefit after July 1, 2010.

Actuarial Analysis

It has been shown in prior analysis that it is more expensive for employers to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age. This was extensively studied during the 2010 legislative session when SB 43 was enacted.

The fiscal impact of SB 43, letter dated February 25, 2010, determined the legislation would have a net reduction in cost to the plan, but there was not an immediate reduction to the contribution rates. Rather, future actuarial valuations would likely experience gains due to the change in retirement behavior. We believe some of this change in retirement behavior was recognized when the retirement rates were decreased as a result of the 2014 experience study. Note that the cost impact in the attached exhibit is not directly comparable to the cost analysis performed in connection with the 2009 OLAG report because these analyses addressed different questions.

To perform this analysis, URS staff provided us data on April 27, 2015 with information related to reemployed retirees. We understand this data included substantially all members who became employed by a participating employer in URS after they commenced their retirement benefit.

The data shows that since July 1, 2010, the effective date of SB 43, there has been a noticeable decrease in the number of members who commence their retirement benefit at an earlier age and return to the workforce shortly thereafter. For example, prior to July 1, 2010 there were on average 150 members in the public employee funds who would retire and return to the workforce each year. Since the enactment of SB 43, the number of retirees from the public employee funds who reenter the workforce has decreased to approximately 40 members per year (70% decrease in the number of working retirees per year). Changes in retirement behavior were somewhat more pronounced for public safety members and firefighters. The attached exhibit provides a summary of certain demographic statistics on working retirees for each membership type. We also analyzed the behavior separately for teachers, state employees, and employees of local governments and political subdivisions, but found, for practical purposes, the average age and service of these different public employee types who returned to the workforce after retirement to be essentially the same. However, the decrease in the number of working retirees was more pronounced for teachers and local government employees and less so for state employees.

The attached exhibit shows the estimated cumulative fiscal savings to URS from July 1, 2010 through December 31, 2014, as well as the projected fiscal savings for the next 10 years due to the changes in the working retiree provisions. We have separately identified the reduction to the actuarial accrued liability due to the change in retirement behavior and the additional revenue from collecting the amortization cost on the payroll of working retirees. The fiscal impact of collecting the amortization cost on the working retiree payroll was only applicable to the payroll of members who retired and are rehired after July 1, 2010. As a result, the additional revenue from these contributions was initially small and increases over time as the number (and associated payroll) of the post-July 1, 2010 working retirees increases.

On a relative basis the cost impact is largest for the public safety funds, and this is due to several factors. First, public safety members receive more valuable benefits, commence their retirement benefit at an earlier age, and generally remain in the workforce as a working retiree for a longer number of years than public employees. Second, the contributions received on the payroll of working retirees in public safety is relatively greater than the contributions from payroll of working retirees in the public employee systems, because the amortization rate of the public safety funds is materially higher than the public employee funds. Finally, there was a larger relative decrease in the number of working retirees compared to the public employee systems.

Assumptions and Methods

The fiscal analysis was based on the data provided by URS related to reemployed retirees. Since retirees returning to the workforce on a part-time and temporary basis are not making a concerted effort to increase their personal financial wealth (compared to those retirees who seek reemployment on a full-time basis for a multi-year period), our analysis does not include working retirees who were reemployed on a part-time basis and post June 30, 2010 retirees who are subject to the $15,000 earnings limitation because they became reemployed within one-year of their initial retirement date. Our analysis also excludes members who retired and returned to the workforce after the age 62 (age 60 for public safety and firefighters), as their period of reemployment is typically shorter compared to those members retiring at younger ages.

Our analysis is based on assumptions regarding future events, which may or may not materialize. Please bear in mind that our analysis is sensitive to certain assumptions used in the analysis, such as the assumed retirement ages and duration of reemployment while retired.

Nothing in this letter should be construed as providing legal, investment or tax advice. We certify that Mr. White is a member of the American Academy of Actuaries and meets all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, or require any additional or clarifying information, please do not hesitate to contact any of the undersigned.

Sincerely,

Lewis Ward
Consultant

Daniel J. White, FSA, EA
Senior Consultant

cc: Mr. Todd W. Rupp, CPA
Mr. Dee Larsen

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Utah Retirement System

Summary of Historical and Projected Savings due to the Changes in the Working Retiree Provisions
(SB 43 Enacted in 2010)

Employee Type	**Public Employees**		**Public Safety**		**Firefighters**	
Summary Demographic Statistics	Prior Provisions	Current Provisions	Prior Provisions	Current Provisions	Prior Provisions	Current Provisions
Average number of working retirees per year[1]:	150	40	70	15	10	2
Average age at retirement (years):	55	56	50	50	50	50
Average service at retirement (years):	31	32	23	23	25	25
Estimated duration (years) as a working retiree:	6	5	10	10	8	8

Historical Fiscal Savings due to the Change in the Working Retiree Provisions (July 1, 2010 through December 31, 2014)	Public Employees	Public Safety	Firefighters	**Total for All Groups**
1. Decrease in liability due to change in retirement behavior[2]:	$ 51,400,000	$ 44,200,000	$ 6,800,000	$ 102,400,000
2. Additional contributions on the payroll of working retirees[3]:	5,300,000	6,300,000	200,000	11,800,000
3. Total fiscal impact:	$ 56,700,000	$ 50,500,000	$ 7,000,000	$ 114,200,000

Projected 10-Year Fiscal Savings due to Change in the Working Retiree Provisions (January 1, 2015 through December 31, 2024)	Public Employees	Public Safety	Firefighters	Total for All Groups
1. Decrease in liability due to change in retirement behavior[2]:	$ 135,400,000	$ 120,000,000	$ 17,500,000	$ 272,900,000
2. Additional contributions on the payroll of working retirees[3]:	48,400,000	70,500,000	3,500,000	122,400,000
3. Total fiscal impact:	$ 183,800,000	$ 190,500,000	$ 21,000,000	$ 395,300,000

Comments and Assumptions:

[1] Demographic statistics only considered those who retired prior age 62 with 30 or more years of service (age 60 with 20 or more years of service for public safety and firefighters). Also, statistics for the current provisions only reflects working retirees who had at least a one-year separation of service.

[2] The change in benefit value is based on current actuarial assumptions, includinga 7.50% investment return assumption and a generational mortality assumption.

[3] Includes the amortization payments received on the payroll of working retirees and members who delayed their retirement date due to the provision change.

EFFECT OF INVESTMENT LOSSES

"Before the 2008-09 financial downturn, Utah's pension system was one of the best-funded statewide pension plans in the country, with an average funded ratio of 95 percent. With the downturn, however, **investments losses led to in a substantial decline in URS's funded ratio** which dropped to 83 percent by 2010. Consequently, the system's actuaries forecasted that large increases in annual required contributions would be needed to cover the losses. To avoid imposing additional financial strain on taxpayers,:

(page 1, Lessons for Public Pensions from Utah's Move to Pension Choice, Robert L. Clark, Emma Hanson, and Olivia S. Mitchell)

Effect of Investment Losses

"We also find that employees hired following the reform were more likely to leave public employment, resulting in higher separation rates. This could reflect a reduction in the desirability of public employment under the new pension design and an improving economic climate in the state. Our results imply that public pension reformers must consider employee responses in addition to potential cost savings, when developing and enacting major pension plan changes."

(Abstract page, Lessons for Public Pensions from Utah's Move to Pension Choice, Robert L. Clark, Emma Hanson, and Olivia S. Mitchell)

FUNKY FISCAL NOTES

- $16.6 MLLION ANNUAL COST PER YEAR
- $16.6 MILLION EQUATES TO O.O652% OF THE TOTAL FUND BALANCE
- URS SAYES THAT AMOUNT OF CHANGE IN FUND IS GOING TO GENERATE A 2% INCREASE
- Think about it! A little more than ½ of 1 tenth of 1% is going to increase the contribution rate by 2%.

FUNKY FISCAL NOTES

- Dan Anderson said that any change to the fund could potentially impact the rate.
- $16.6 million, .0652% of fund balance
- Result: .41% or 2% increase in Rate.
- 2010 to 2015 increase in investment fees of over $540 million for alternative investments
- Same ratio applied to increase in fees, the contribution rate would increase by 13 points to over 30%

Our Obligation

We have a moral and ethical obligation to provide our children the best education possible, and the public deserves to have the best safety available to protect our citizens.