



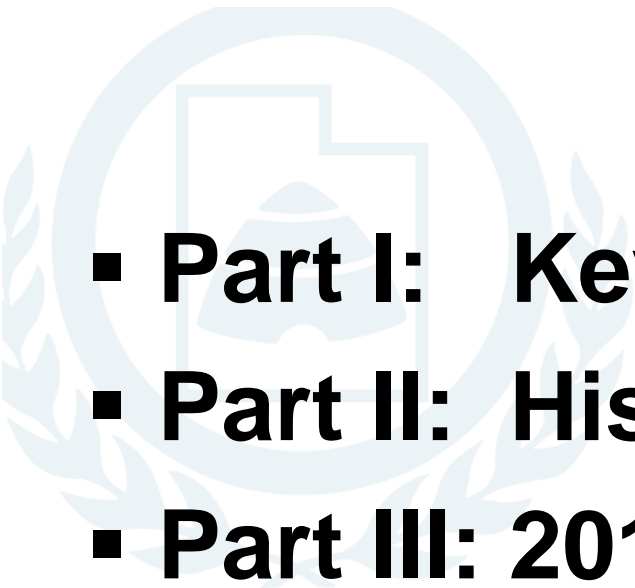


Historical Review of Retirement Systems Reforms

**Retirement and Independent
Entities Committee**

June 1, 2017

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Value • Innovation • Excellence

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- **Part I: Key Concepts and Terms**
 - **Part II: Historical Overview**
 - **Part III: 2010 Legislative Reforms**
 - A. Tier II
 - B. Post-retirement
Reemployment Restrictions



Part I: Key Concepts and Terms

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Key Concepts

1. Purpose of Retirement Benefits

- Recruitment
- Retention (Engagement)
- Orderly Transition



Key Concepts

2. Risk / Security

- Longevity Risk
- Investment Risk



Key Concepts

3. Time Horizon

- Decades, not Months or Years



Key Concepts

4. Comparisons With Other Systems
 - Not all public retirement plans are created equally



Key Terms

- “Defined Benefit plan” (DB) means a monthly benefit payable for life after meeting eligibility requirements, e.g. a pension.
- “Defined Contribution plan” (DC) generally means a set amount is being put into the plan without regard for benefits payable, e.g. a 401(k).



Key Terms

- “Hybrid Plan” means a plan that contains elements of both Defined Benefit (DB) and Defined Contribution (DC) plans.



Key Terms

In Defined Benefit (DB) plans:

- “Contributory” means that employees pay a portion of the retirement contribution to the plan.
- “Non-contributory” means that only employers pay the retirement contribution to the plan.



Part II: Historical Overview

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Historical Overview

- The current benefits for public employees as well as the differences among the various retirement systems are best understood with a recognition of the history of public retirement in Utah.
- Employee associations, local governments, and the Legislature struggled to provide employee retirement benefits at the local and state levels, resulting in the establishment and expansion of the early pension plans from 1907 through the 1950s.



Historical Overview

- The Legislature consolidated the retirement programs under one board and office in 1963.
- The Legislature made significant structural, governance, and benefit changes in the late 1980s, including increasing the investment and banking professionals on the Retirement Board and establishing the noncontributory systems.
- Retirement benefits were mostly stable from the 1990s until the 2008-2009 global financial crisis.



Historical Overview

- In the aftermath of the financial crisis, Utah became an early leader in the U.S. pension reform movement as the Legislature enacted major retirement reforms in the 2010 General Session:
 1. Created a different benefit structure called Tier II for public employees hired on or after July 1, 2011; and
 2. Enacted post-retirement reemployment restrictions for future retirees, including a one-year separation period between retirement and a return to work.



Part III:

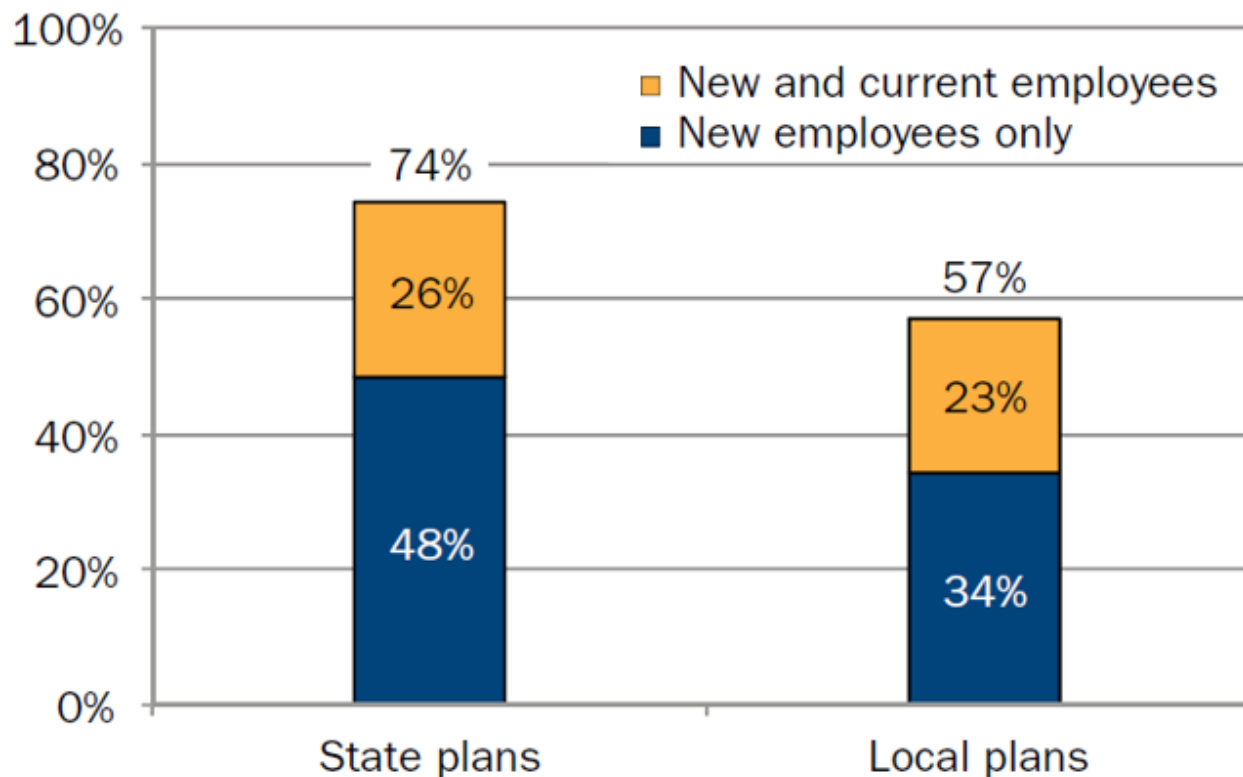
A. Tier II Retirement Reforms

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National Patterns of Reform

A December 2016 study, *State and Local Pension Reform Since the Financial Crisis*, by the Center for State and Local Government Excellence examined data from all 114 state retirement plans and an additional 142 local government plans.

Figure 1. *Percentage of Plans Making Benefit Changes, by Type of Employee, 2009-2014*



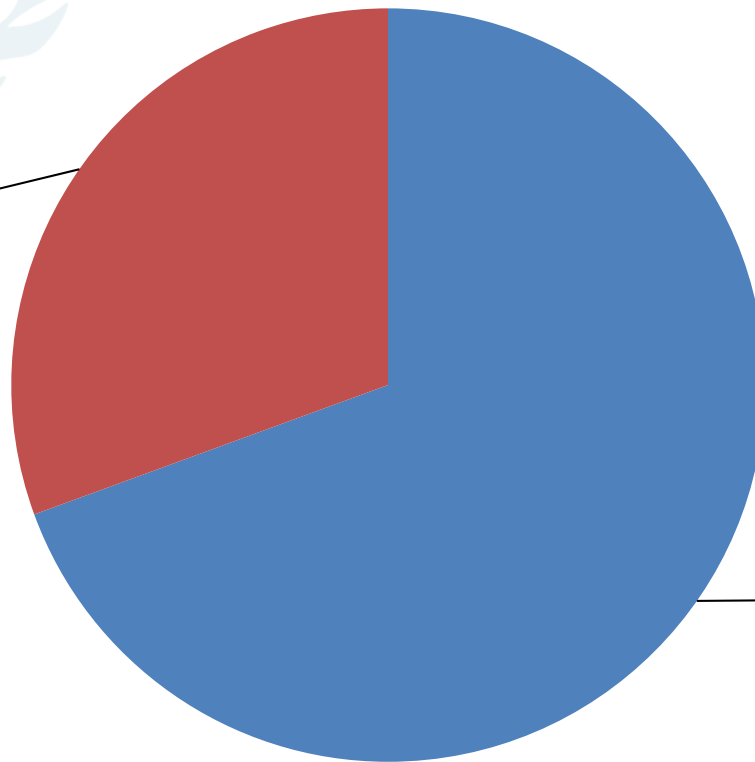
Tier II Legislative Reform in Utah

- Created a different benefit structure called Tier II for public employees hired on or after July 1, 2011, with a choice between a hybrid or defined contribution (DC) only plan benefit.
- For a Tier II employee, the normal cost component of employer contribution rates is capped by statute at the following percentage of the employee's compensation:
 - 10% for public employees; and
 - 12% for public safety and firefighter employees.

Active Tier I and Tier II Employees

As of December 31, 2016

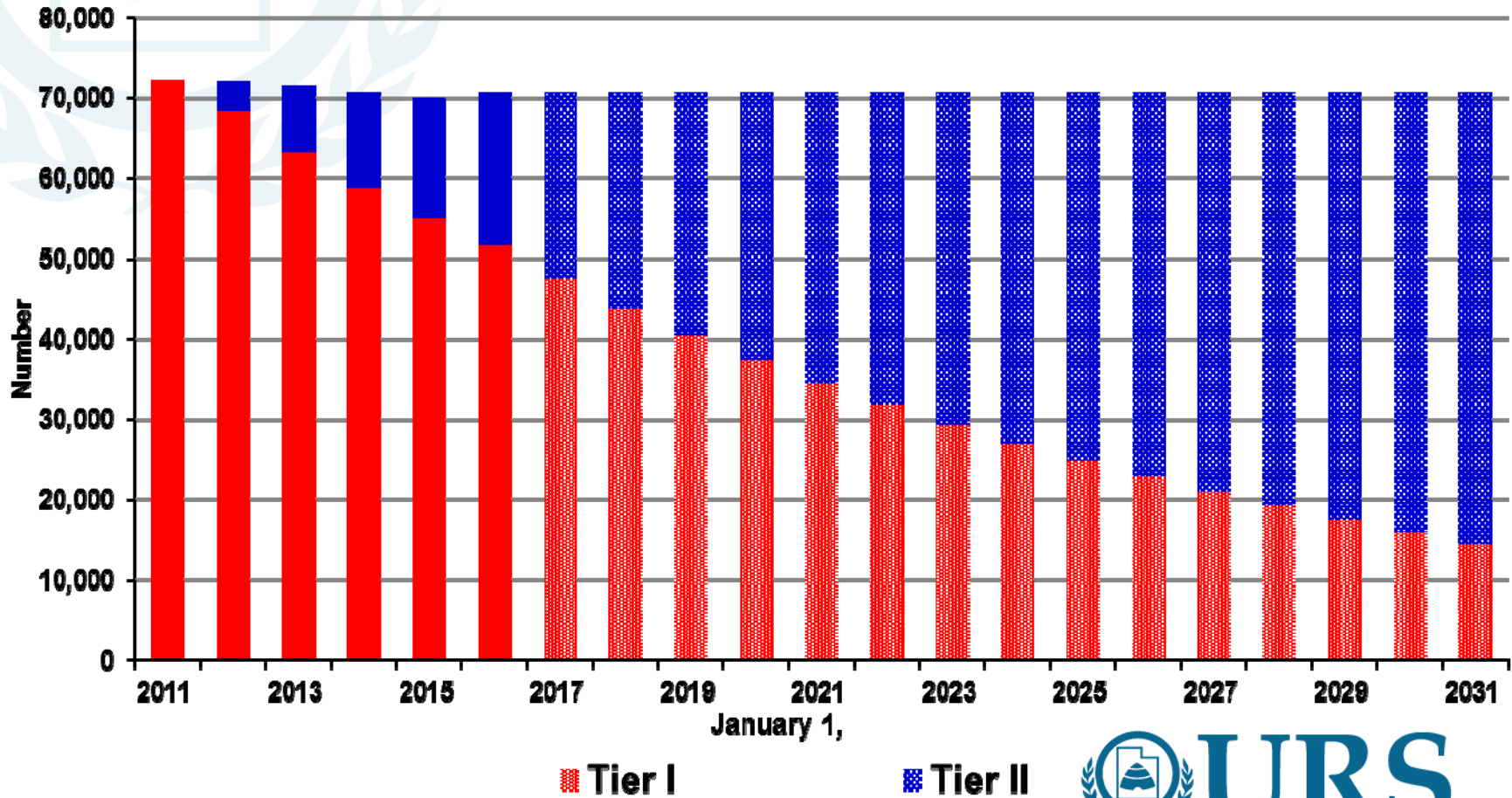
Tier II:
31,634
30.6%



Tier I:
71,823
69.4%

Active Membership

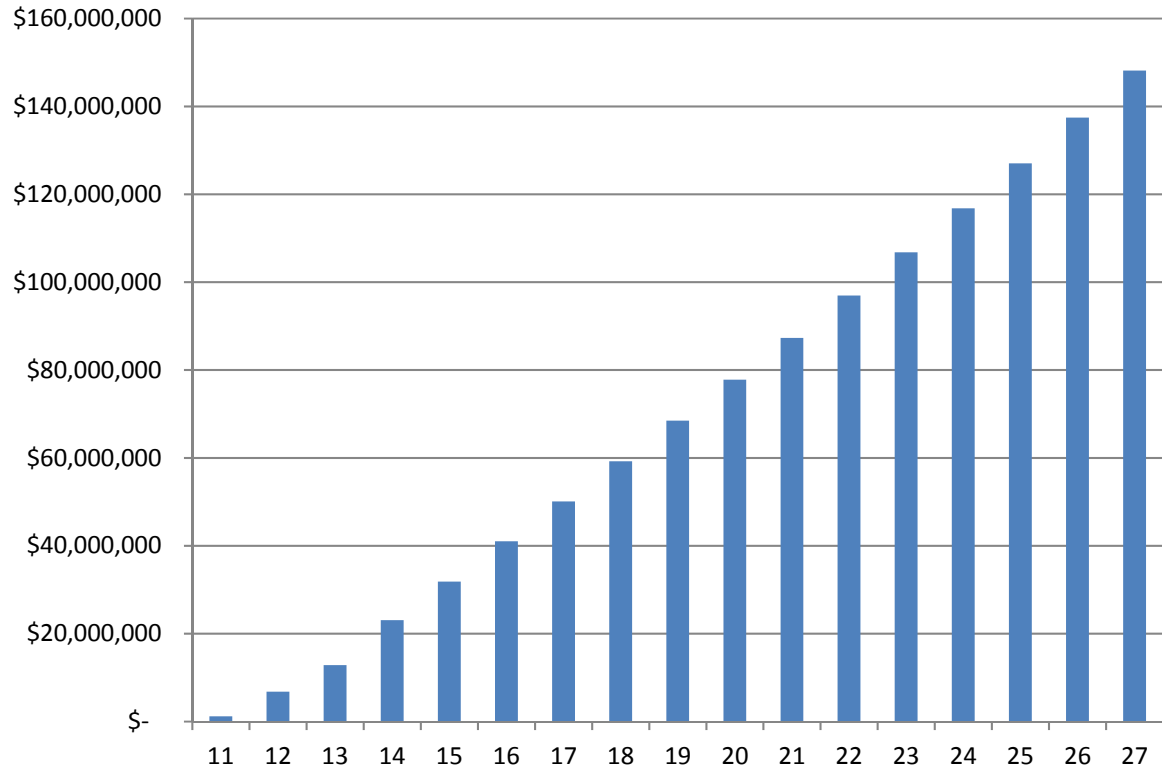
Projected Number of Tier I and Tier II
Employees of State and School Employers



Tier II Annual Employer Savings

2011	\$	1,122,000
2012	\$	7,735,000
2013	\$	15,333,000
2014	\$	23,373,000
2015	\$	32,087,000
2016	\$	41,576,000
2017	\$	50,099,000 *
2018	\$	59,241,000 *
2019	\$	68,472,000 *
2020	\$	77,811,000 *
2021	\$	87,290,000 *
2022	\$	96,950,000 *
2023	\$	106,793,000 *
2024	\$	116,803,000 *
2025	\$	127,026,000 *
2026	\$	137,447,000 *
2027	\$	148,142,000 *

*Estimate



Tier II savings since inception

\$121,226,000





Part III:

B. Post-Retirement Reemployment Reforms

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Enacted Bills Relating to Post-Retirement Reemployment

- 1989 H.B. 119, “Post-Retirement Employment”
- 1990 S.B. 78, “Post-Retirement Restrictions for Elected Officials”
- 1994 H.B. 155, “Retirement Office Amendments”
- 1995 H.B. 124, “Retirement Law Amendments”
- 1995 H.B. 107, “Postretirement Employment”
- 2000 H.B. 272, “Retirement Office Amendments”
- 2001 H.B. 36, “Retirement Office Amendments”
- 2002 H.B. 250, “Retirement Law Recodification”
- 2003 H.B. 246, “Retirement Office Amendments”
- 2004 H.B. 253, “Retirement Office Amendments”
- 2005 H.B. 180, “Retirement Office Amendments”
- 2007 H.B. 8, “Retirement Office Amendments”
- 2009 S.B. 127, “Retirement Amendments”
- 2010 S.B. 43, “Post-retirement Employment Amendments”
- 2011 S.B. 308, “Amendments to Public Employee's Benefit and Insurance Program”
- 2011 S.B. 127, “Post Retirement Employment Amendments”
- 2012 H.B. 256, “Retirement Modifications”
- 2013 H.B. 95, “Amortization Rate Contribution for Reemployed Retirees Revisions”
- 2014 S.B. 28, “Utah Retirement Amendments”
- 2014 S.B. 15, “Reemployment Restrictions Amendments”
- 2014 H.B. 126, “Retirement Amendments”
- 2015 H.B. 151, “Affiliated Emergency Service Worker Postretirement Employment Amendments”
- 2015 H.B. 12, “Utah Retirement System Amendments”
- 2016 H.B. 51, “Recodification of Postretirement Reemployment Provisions”



Timeline for Postretirement Employment Restrictions

1999 – 2014

H.B. 365, Public Safety Retirement Exceptions -- Allows an elected sheriff in the Public Safety Noncontributory System to retire, receive a pension, and continue in the elected position.

H.B. 36, Retirement Office Amendments -- Requires an employer to contribute the same percentage of the member's salary to a defined contribution plan if the employer does not participate in the defined contribution plan administered by the board.

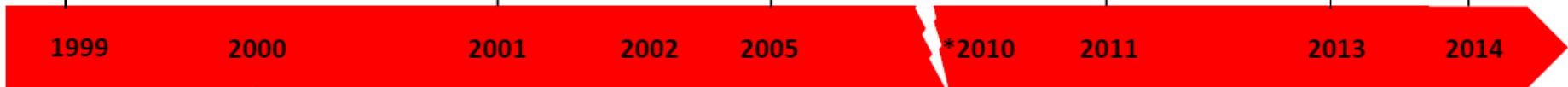
S.B. 85, Public Safety Retirement Exception -- Allows an elected sheriff in the Public Safety Contributory System to retire, receive a pension, and continue in the elected position.

H.B. 217, Public Safety Retirement, Exemption of Certain Employees -- Allows an eligible Commissioner of Public Safety in the Public Safety Contributory or Noncontributory Retirement System to retire, receive a pension, and continue in the appointed position.

S.B. 127, Post Retirement Employment Amendments -- Allows a retiree who begins reemployment on or after July 1, 2010, to be reemployed within one year if the retiree is not reemployed for at least 60 days, the retiree does not receive any employer paid benefits, and does not earn more than a certain amount.

S.B. 10, Retirement Eligibility Amendments -- Provides that a member who is retiring and who is an elected official does not have to leave the elected office to retire, and provides that a member who is retiring and is a member of a part-time board does not have to leave the board to retire.

H.B. 126, Retirement Amendments -- Allows a reemployed public safety service retiree to be considered as having completed the one-year separation if the retiree suffered an injury, which resulted in the inability to perform the duties of employment. Exempts an active senior justice court judge and a part-time appointed board member from postretirement employment restrictions.



H.B. 272, Retirement Office Amendments -- Requires an employer to contribute the same percentage of the member's salary to a defined contribution plan if a member may not accrue additional service credit as a reemployed retiree.

H.B. 230, Retirement of Public Safety Officials -- Allows an appointed chief of police in the Public Safety Retirement System to retire, receive a pension, and continue in the elected or appointed position.

***S.B. 43, Post-retirement Employment Amendments**

- Prevents the Commissioner of Public Safety, an elected or appointed sheriff, or a chief of police from retiring in place on or after July 1, 2010 (see 1999, 2000, 2001, 2002, and 2005).
- Repeals a requirement that a participating employer who hires a retiree contribute the same percentage of the member's salary to a defined contribution plan (see 2001).
- Establishes framework for current postretirement restrictions including:
 - One-year separation requirement; and
 - Prohibiting a retiree from collecting an allowance while at the same time receiving any retirement related employer contribution or earning additional service credit.

Working Retiree Principles

- 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 and continue to participate in the workforce.
- The financial impact of changes to working retiree provisions is actuarially determined based on the anticipated changes in retirement behavior. (How high is the hurdle to return to work in the rules?)
- Costs or savings are realized over the long term and are hidden in the systems unless specifically identified and analyzed.

Working Retiree Costs

- Return to work impacts have been studied and documented for stakeholders in URS over the last several years by URS' consulting actuary, Gabriel Roeder Smith & Company.
- In 2015, the actuary performed a detailed analysis of the actual experience of retiree behavior for members retiring 4.5 years prior to and 4.5 years after the restrictions took effect on July 1, 2010.

Working Retiree Costs

- For 2016 General Session legislation, the actuary determined the fiscal impact across all systems of exempting everyone from the current return to work restrictions after 60 days of separation:
 - Increase in unfunded actuarial accrued liability: \$223.4M
 - Increase in annual cost for all participating employers: \$25.7M
 - Increase in actuarially determined contribution rates for Tier I systems: 0.32% to 2.43%
- The fiscal impact of other more limited working retiree legislative proposals was also determined by the actuary.

Working Retiree Flexibility

If retirees are permitted to commence their monthly retirement benefit earlier and continue to participate in the workforce:

- Members have significant opportunity to increase their personal financial resources late in their career.
- Employers may benefit from the ability to recruit and utilize recent retirees in their workforce.
- Increased costs are paid from the Retirement Fund; All employers would experience resulting increases in contribution rates, even those employers that do not hire retirees.

URS is neither for nor against the current working retiree provisions or potential changes. Retiree return to work rules are policy and financial decisions for the Legislature. Our goal is to inform the stakeholders of the impact of changes to these rules on URS and employer contribution rates.





Conclusion

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Plan Elements are Like Levers



Retirement Benefit Changes

- Benefits are established in statute by the Legislature.
- Changes often have a long runway for implementation and costs or savings are usually realized over the long term.
- Changes should carefully be reviewed and evaluated for impacts and costs by the stakeholders prior to legislative action, including determining:
 - Legislative policy objectives;
 - Employer needs, recruiting and retention considerations, and ability to pay;
 - Employee needs, considerations, and morale; and
 - How retirement benefits fit within a competitive overall compensation and benefits package.



Questions?

URS is willing to discuss questions or concerns with legislators or provide additional information, whether related to this presentation or about other retirement-related issues.

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