



# Utah Retirement Systems Updates

*Retirement and Independent  
Entities Committee*

*May 23, 2018*



Trust • Commitment  
Value • Innovation • Excellence

# URS 2017 Comprehensive Annual Financial Report (CAFR)



- For the Year Ended December 31, 2017
- Contains detailed audited financial and statistical information
- Is available online:  
<http://newsroom.urs.org/2017-comprehensive-annual-financial-report>





# 2017 Highlights

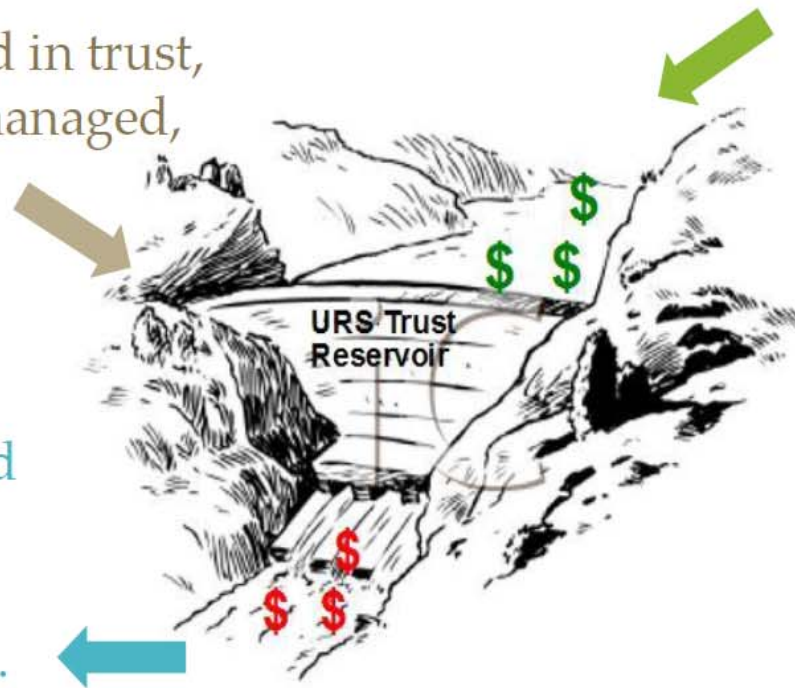
- The URS Defined Benefit (DB) fund earned a 13.57% investment rate of return in 2017.
- The fund grew by \$3.33 billion to \$31.9 billion, an all-time high.
- At year's end, the funded ratio increased to 90.3% on a market value of assets basis and 87.5% on an actuarial value of assets basis.
- The funded ratios increased despite URS reducing its assumed investment rate of return from 7.2% to 6.95%.
- URS has significant economic and social impact on the state with \$1.56 billion in pension payouts made to retirees in 2017.

# Utah Retirement Systems

*Like a Reservoir of Shared Funds for Members...*

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

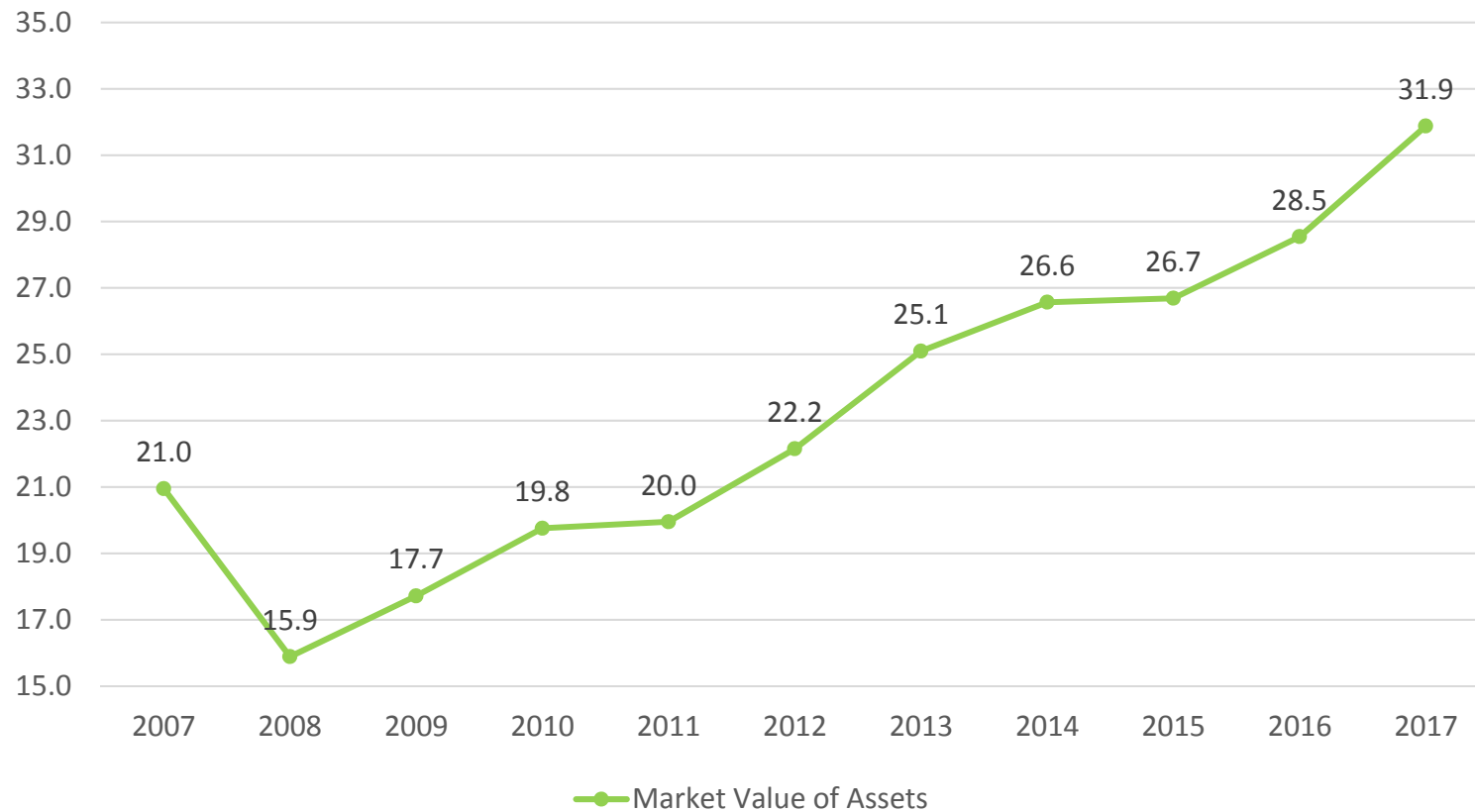
3. Funds are paid out monthly by formula, during retirement years.



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

# URS Market Value of Defined Benefit Plan Assets

(\$ in Billions)

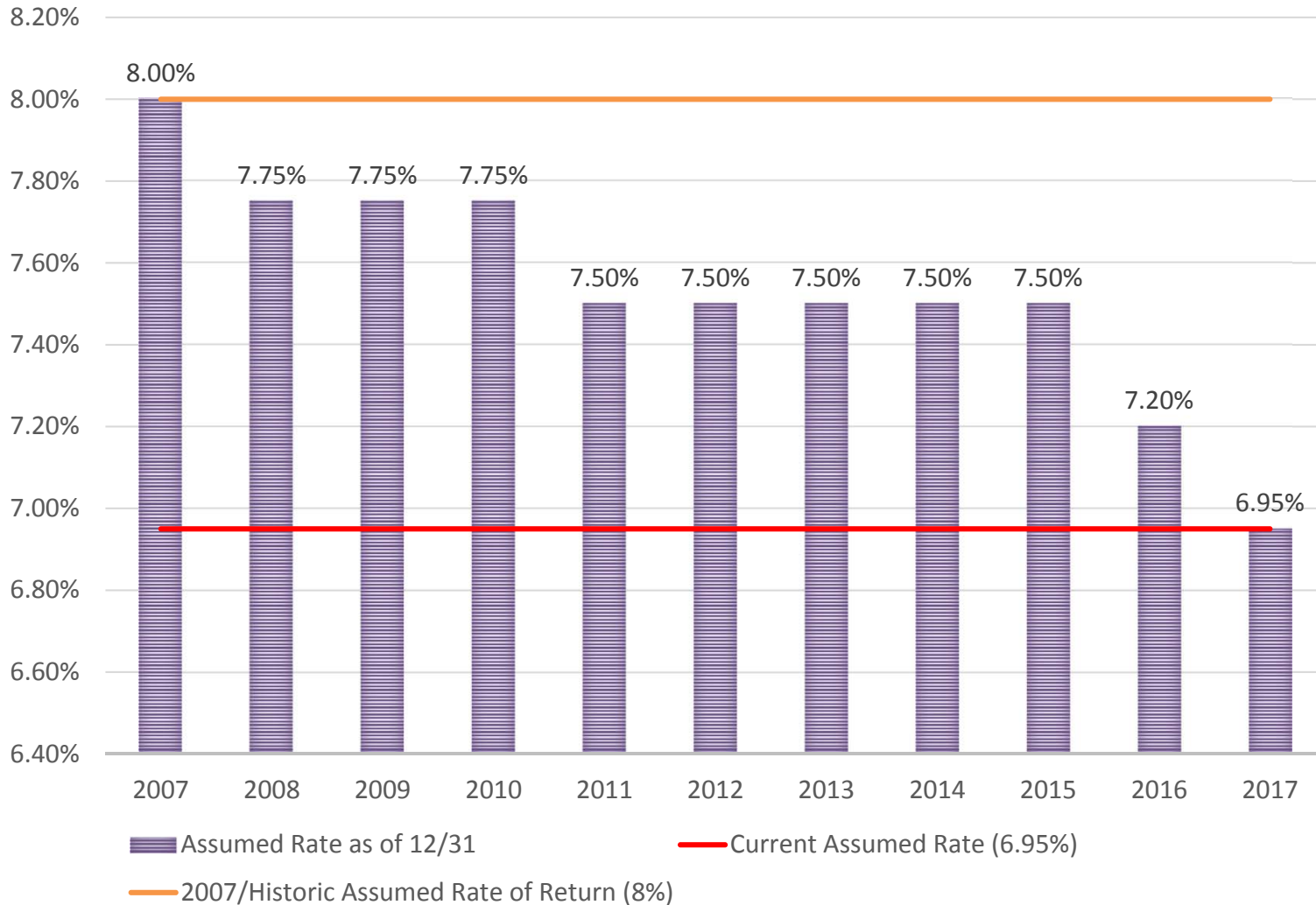


# DB Plan Benefits Paid by URS

2008-2017 Total: \$12,162,108,000



# URS Actuarial Assumed Investment Rate of Return



# The Board & the Assumed Rate

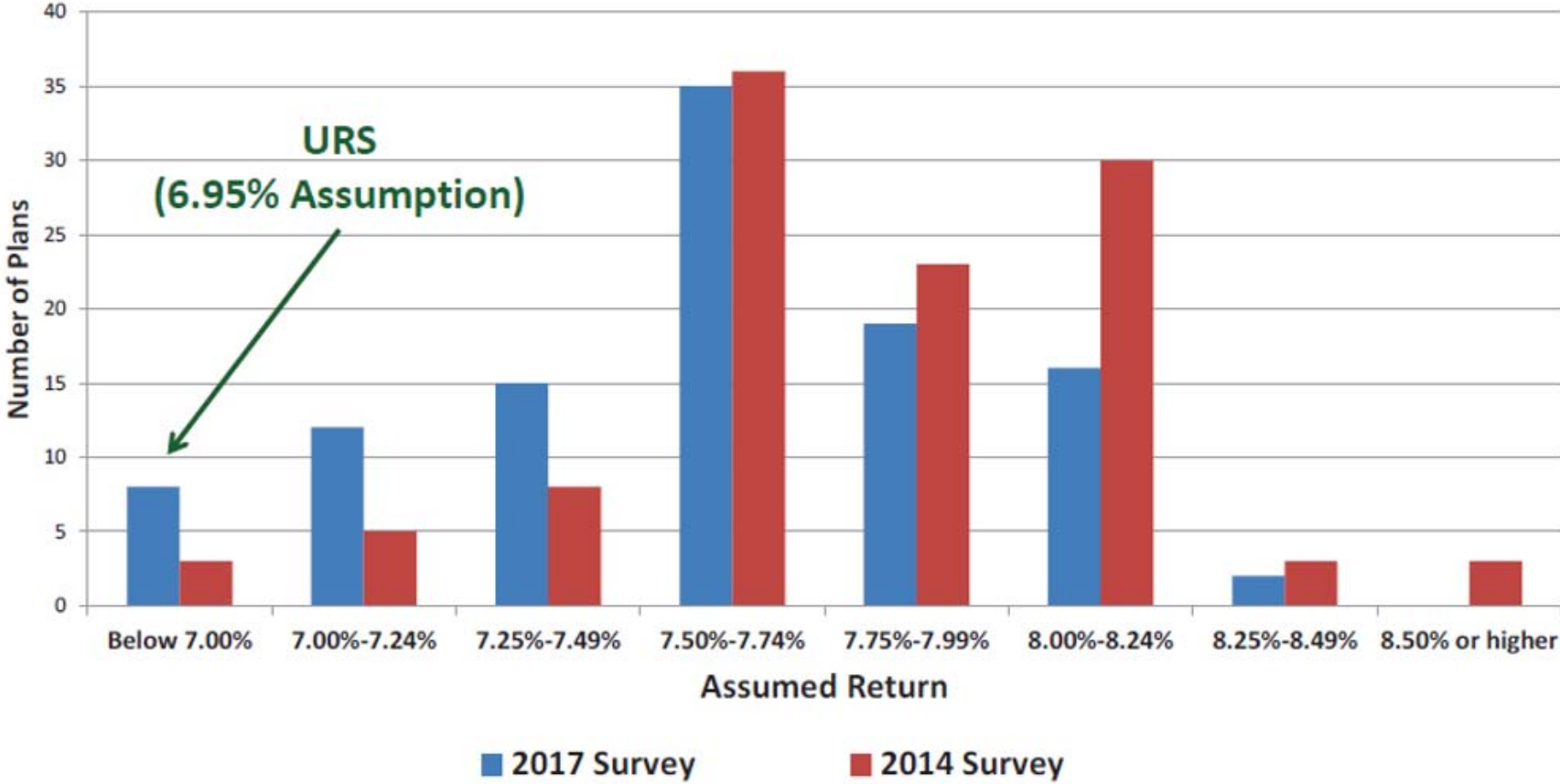
The Utah State Retirement Board members, the majority of whom are investment professionals, have been fiscally prudent and conservative as they set the rate based on forward-looking capital market expectations. As stated in the 2017 CAFR's Board President letter:

“A 6.95% rate of return is considered conservative and is among the lowest when compared to similar statewide pensions. As board members and trustees of URS, it's our solemn duty to safeguard retirement benefits for current and future retirees from Utah's public sector. A safe, prudent, well-researched assumed rate of return is a product of this commitment.”

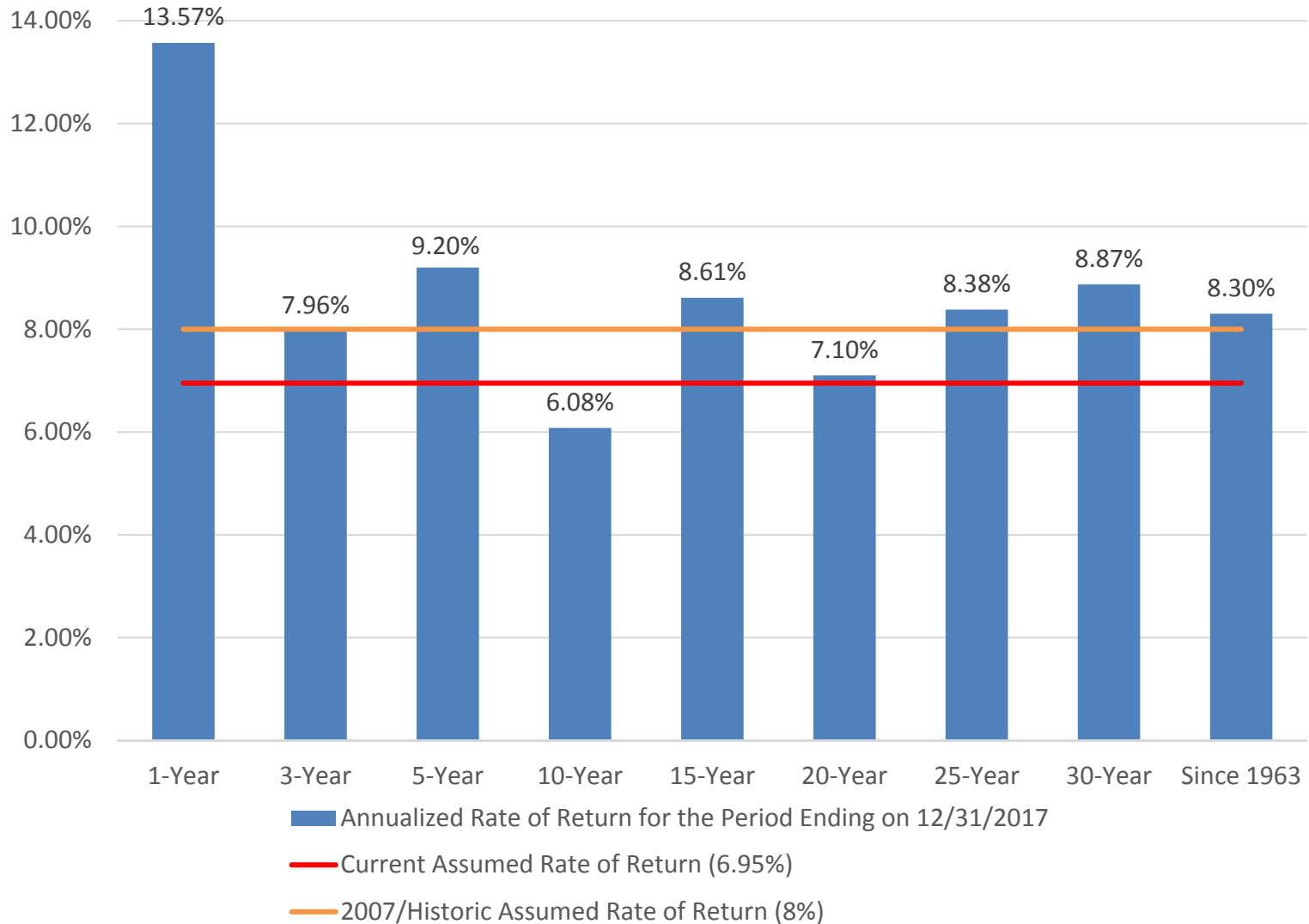


# Assumed Rate of Return National Comparison

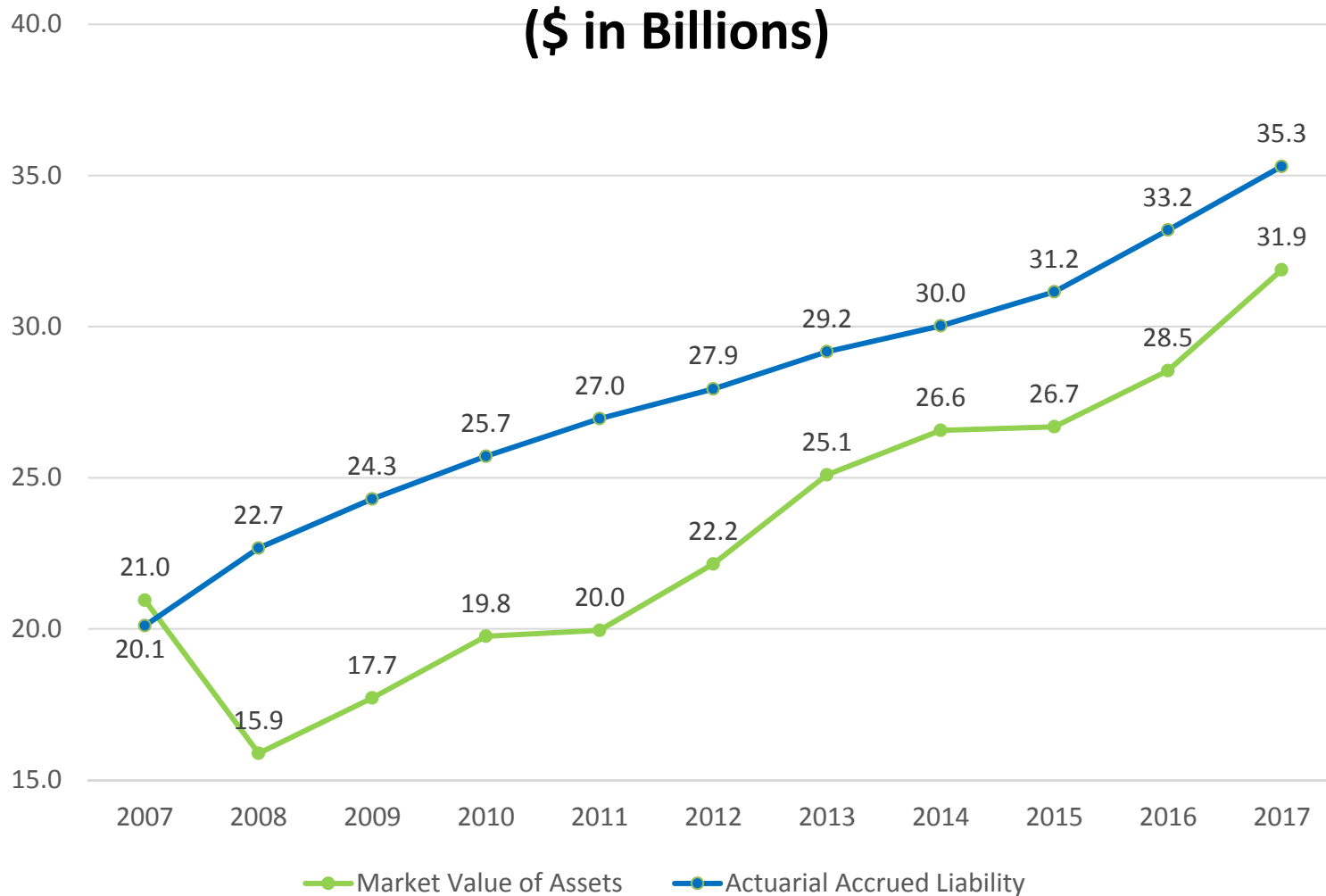
Public Fund Survey - Investment Return Assumption



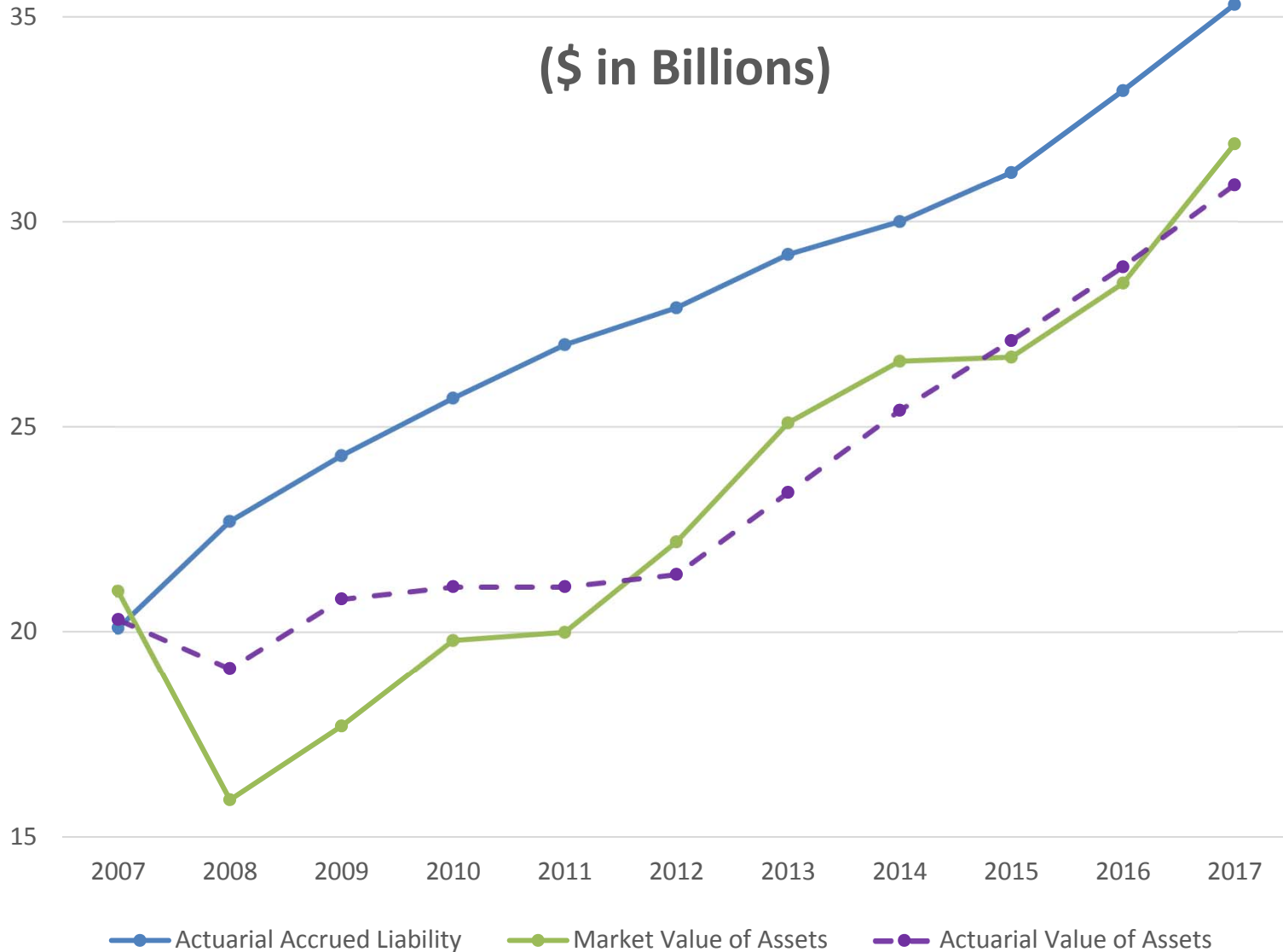
# URS DB Plan Actual Rates of Return vs. Assumed Investment Rate of Return



# DB Actuarial Accrued Liability & Market Value of Plan Assets



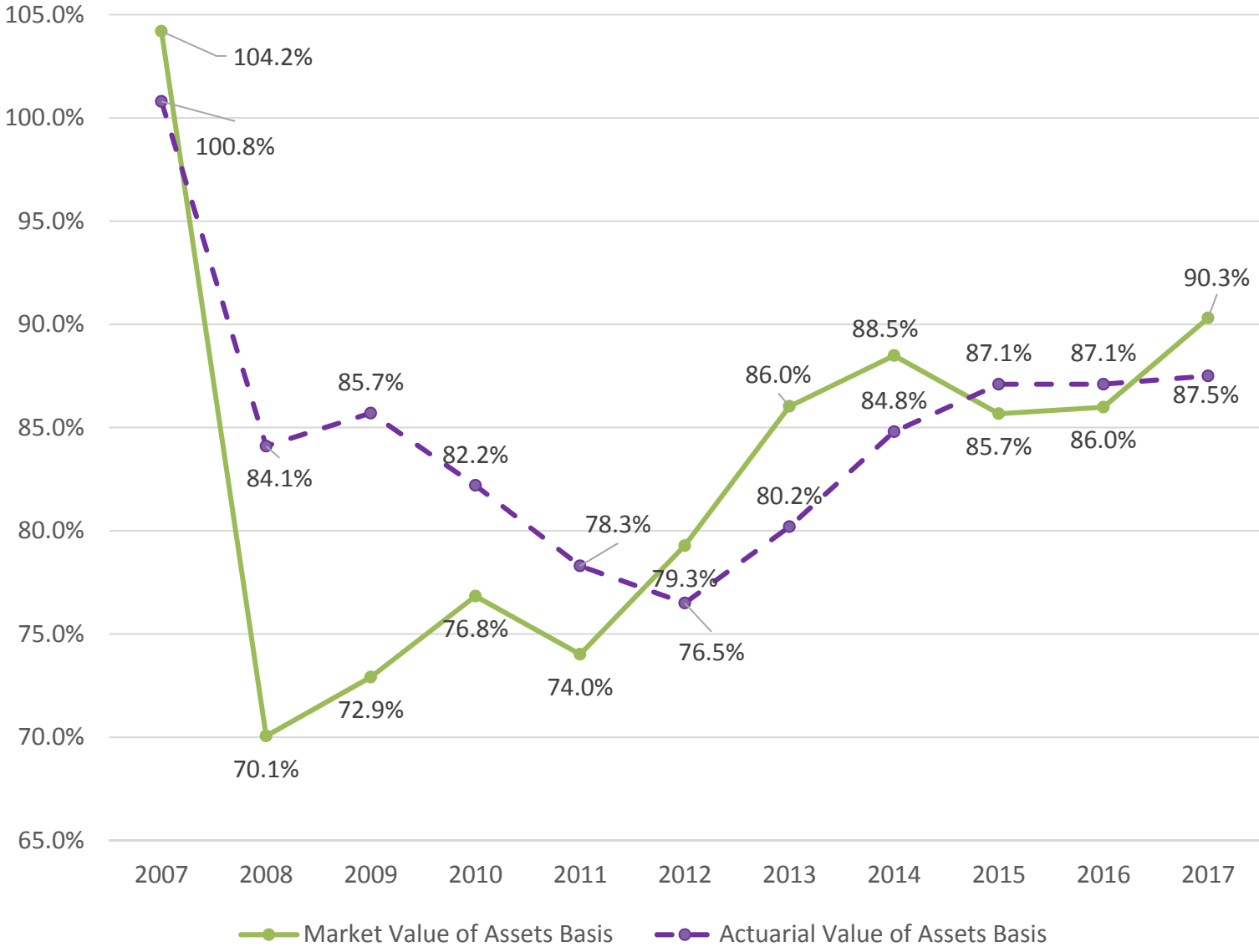
# Plan Assets & Liability



# Funded Ratios

- When looking at the finances of retirement systems, many people focus on the funded ratio as a standard measure of a plan's financial status.
- It is expressed as the ratio of the value of assets to the actuarial accrued liability as of a specific point in time; it is the difference between two moving numbers.
- Since the calculation of actuarial accrued liability is based on a plan's actuarial assumptions, this raises a caution when making comparisons between funded ratios of different DB plans.
- While important information, funded ratios are often misunderstood and misused.

# URS DB Plan Funded Ratios

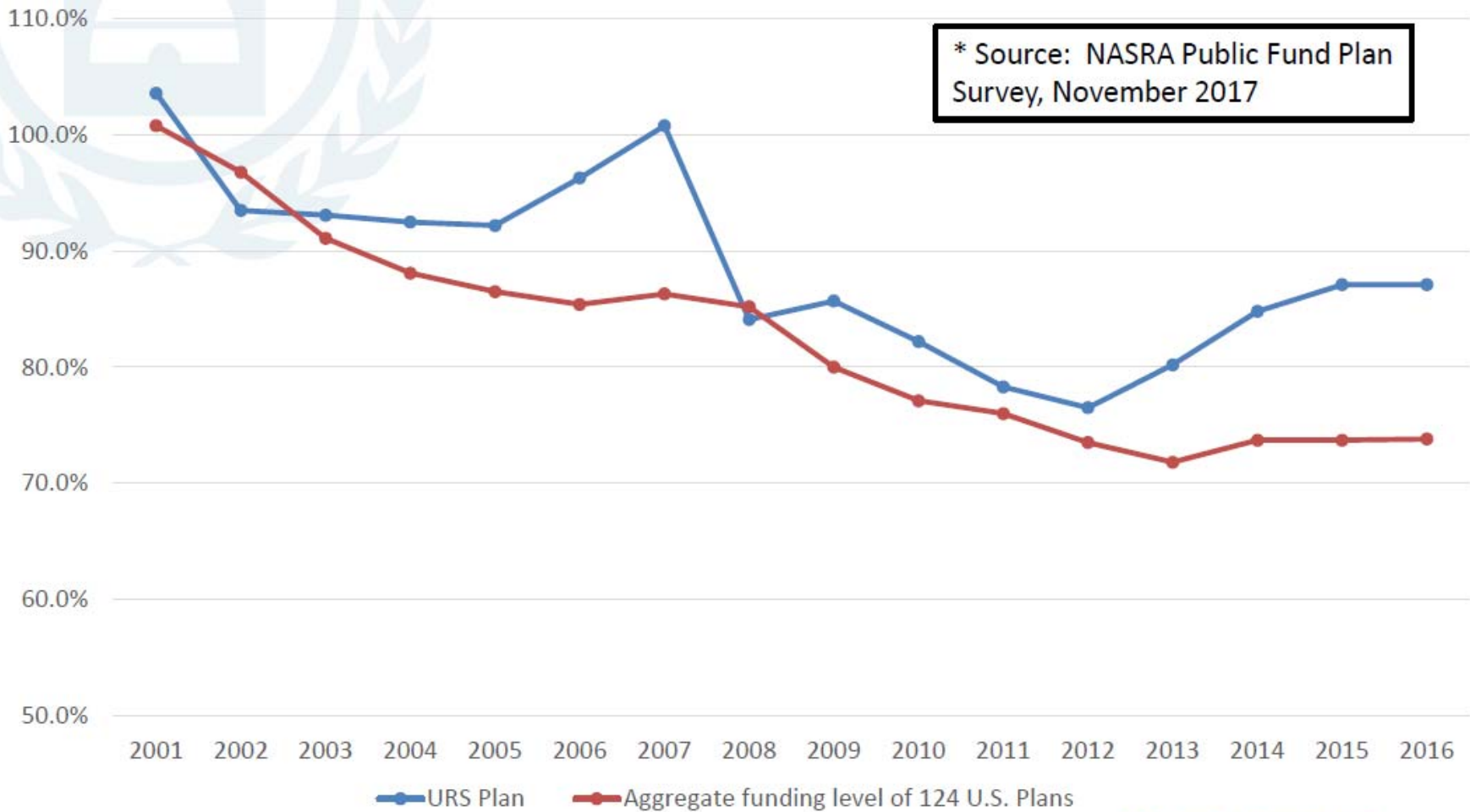


# What if the Assumed Investment Rate of Return was Higher?

- Even a small change to Assumed Investment Rate of Return can produce significant changes to the plan liabilities and funded ratios.
- Accounting rules require URS to disclose in its CAFR the sensitivity of the net pension liability to changes in the discount rate.
- The reduction of the assumed rate from 7.5% to 6.95% in 2016 and 2017 increased the actuarial accrued liability of the DB plans by \$1.57 billion.
- The funded ratio of URS DB plans would currently exceed 100% using the assumed investment rate of return from 2007 and before.

Assumed Investment Rate of Return	Net Pension Liability/Asset for the URS participating employers
Current discount rate (6.95%)	\$3.4 billion Net Pension Liability
1.00% Increase (7.95%)	\$446 million Net Pension Asset

# How URS compares to the aggregate public pensions fiscal year 2001 - 2016



\* Source: NASRA Public Fund Plan Survey, November 2017





# Contribution Rates: Process

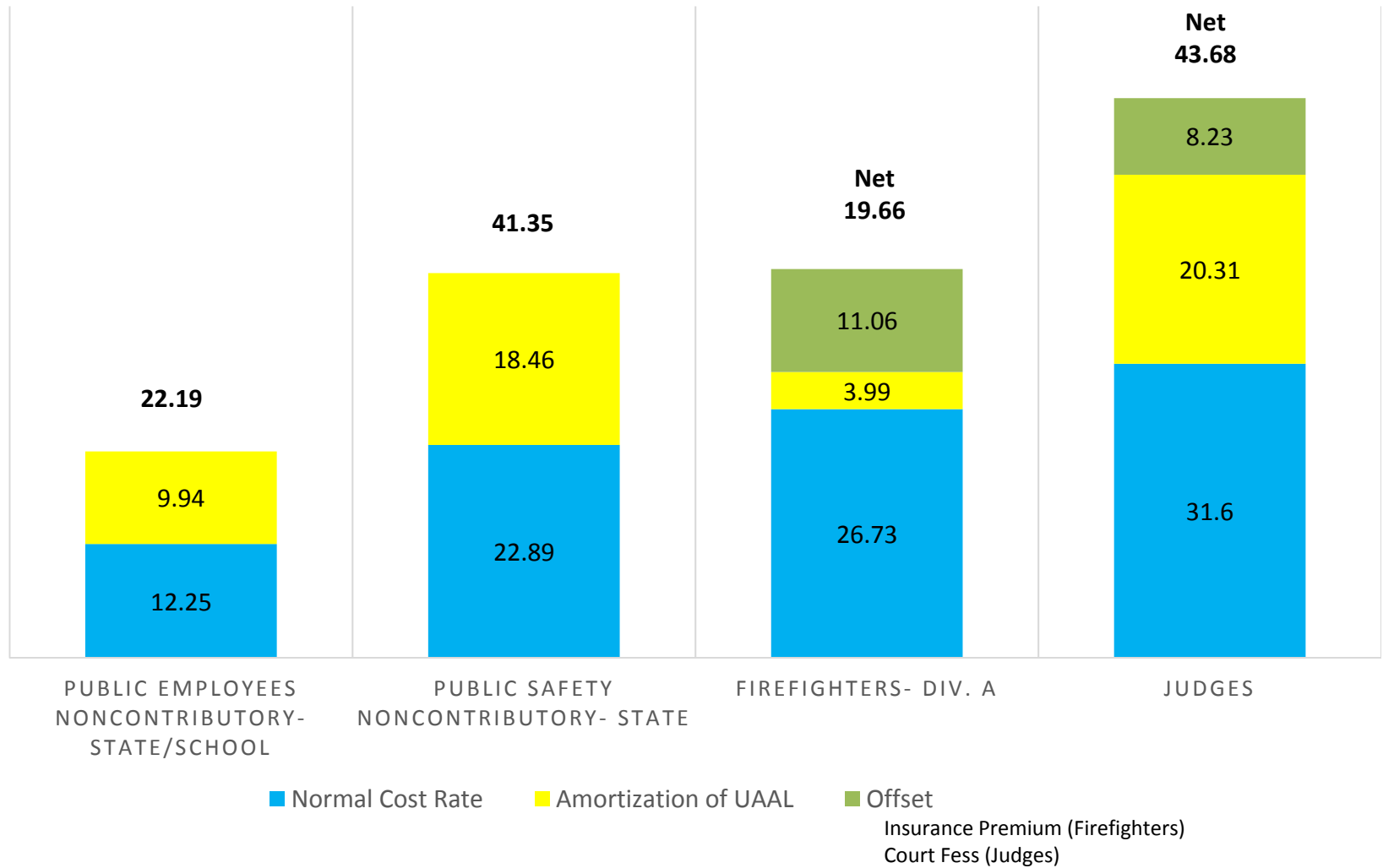
- Utah Code Title 49 requires the Board to certify employer contribution rates annually to maintain the systems, plans, and programs on a financially and actuarially sound basis.
- Preliminary rates are adopted and communicated to stakeholders each August, based on an actuarial valuation study, to take effect the following fiscal year on July 1.
- Following the legislative session, the Board adopts the final certified contribution rates, which include any rate adjustments needed to reflect benefit change legislation.
- Contribution rates cover both the employer normal cost rate, which pays the current year's cost of benefits, and an amortization of any unfunded actuarial accrued liability (UAAL).

# Contribution Rates: Process

- The consulting actuary uses a smoothed value of plan assets instead of a market value for funding purposes. This is more compatible with public sector budgeting processes in order to withstand some adverse experience without immediately requiring further contribution rate fluctuations.
- Utah Code Subsection 49-11-301(5)(a) provides a unique mechanism in which the contribution rates are certified and maintained by the Board above the actuarial calculated rates at the prior year's levels until the actuarial funded ratio of the systems reaches 110%. This results in unfunded liabilities being paid off sooner. It is also an important tool to reduce rate volatility, which benefits employers' budgeting.

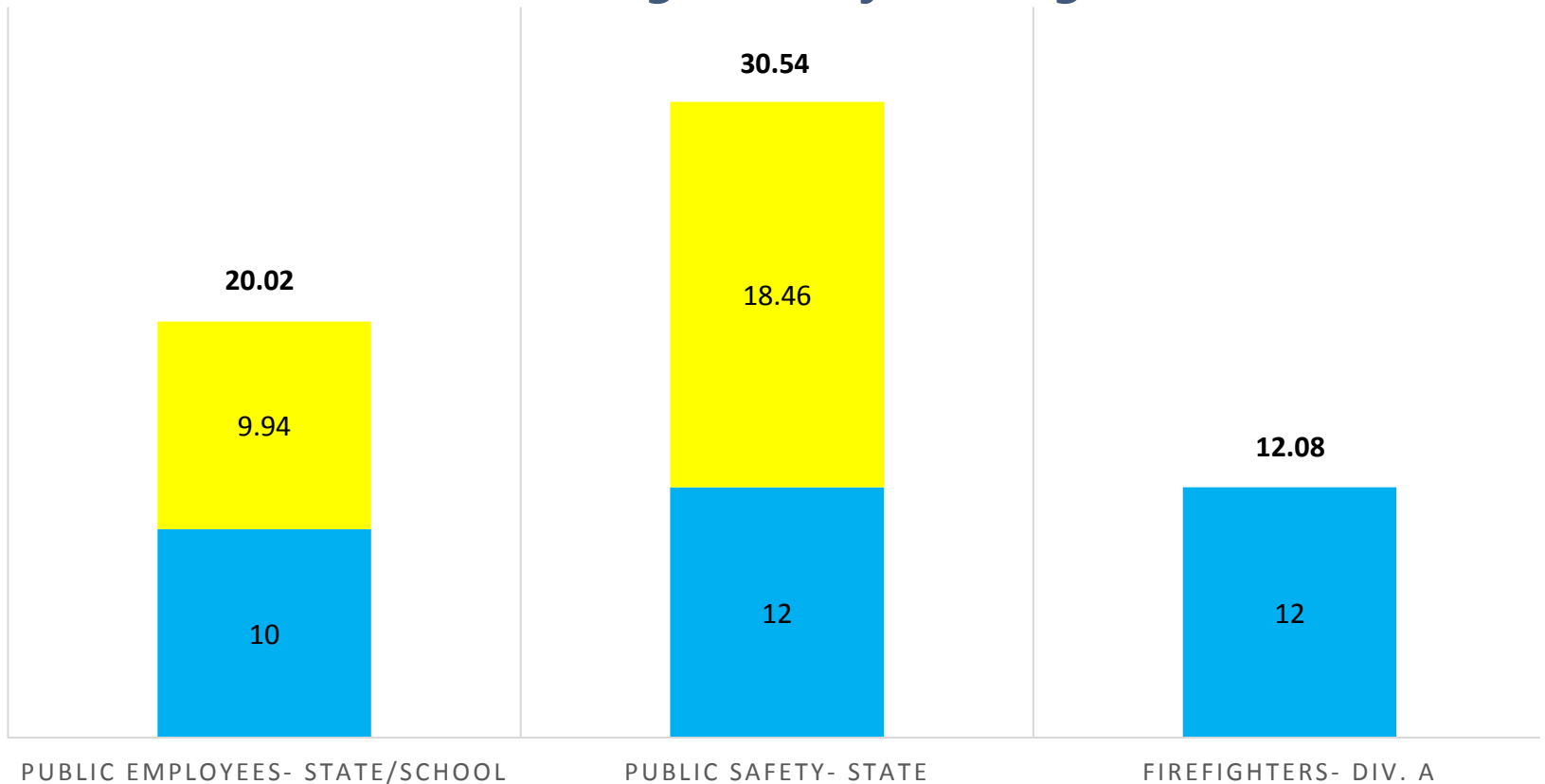
# Selected Tier I Contribution Rates

FY 2018-19 as a Percentage of Salary and Wages



# Selected Tier II Contribution Rates

FY 2018-19 as a Percentage of Salary and Wages



■ Normal Cost Rate

■ Tier I Amortization of UAAL

Public Employees Hybrid Plan Rate 8.85% & 1.15% 401(k) Contribution

Public Safety/Firefighter Hybrid Plan Rate 11.26% & .74% 401(k) Contribution

# 2018-19 Contribution Rate Changes from Legislation

2018 S.B. 21, Public Safety and Firefighter Retirement Death Benefit Amendments (Sen. Mayne), amended death benefits for certain public safety and firefighter fund members.

It provided a minimum benefit equal to the amount the member's surviving spouse would have received if the member had retired the day before their death and then died.

## Increase in actuarially determined contribution rates:

### Public Safety Contributory

Other Division A (2.5% COLA)	0.04%
Other Division A (4% COLA)	0.04%
Other Division B (2.5% COLA)	0.03%
Other Division B (4% COLA)	0.03%

### Public Safety Noncontributory

#### Retirement System, Division B Funds:

Salt Lake City	0.04%
Ogden	0.04%
Provo	0.07%
Logan	0.05%
Other Division B (2.5% COLA)	0.03%
Other Division B (4% COLA)	0.03%

#### Firefighters' Retirement System:

Division A	0.14%
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# Conclusion

- While the past investment returns have exceeded the current assumed investment rate of return, the Board recognizes the investment headwinds in the future that many economic experts predict.
- Even with the lower assumed rate of return, the URS DB plans are among the most well-funded statewide plans in the country.
- These numbers have hopefully told the story of a conservatively run, well-funded pension fund built to withstand market volatility and provide a stable return for the retirement security of Utah public employees and retirees.



# 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.

Please contact:

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# Key Terms for Reference

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# 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).
- “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.
- “Noncontributory” means that only employers pay the retirement contribution to the plan.