

Utah Retirement Systems Overview

June 2020

OFFICE OF LEGISLATIVE RESEARCH AND GENERAL COUNSEL

Retirement and Independent Entities
Interim Committee



Five Key Retirement System Indicators

- 1. Funded Ratio = 87.2% (2019)** (Recent high: 100.8% in 2007; recent low: 76.5% in 2012)
 - Unfunded Liability - \$3.2 billion (2019)
- 2. Contribution Rate Levels = 22.19% of Salary** (*FY 2020 Public Employees Noncontributory**)
- 3. Revenue**
 - Investment Rate of Return = 14.45% (2019)
 - Assumed Rate of Return = 6.95% (2019)
- 4. Fiscal Discipline – Elements**
 - Fully Funded Recommended Contributions – no contribution holidays
 - Avoid Benefit Enhancements – no benefit increases
 - Well Managed System – URS Board, URS Office, Actuary, Legislature
 - Reasonable Administrative Costs
- 5. Clear Reporting/Accountability**

Key Questions

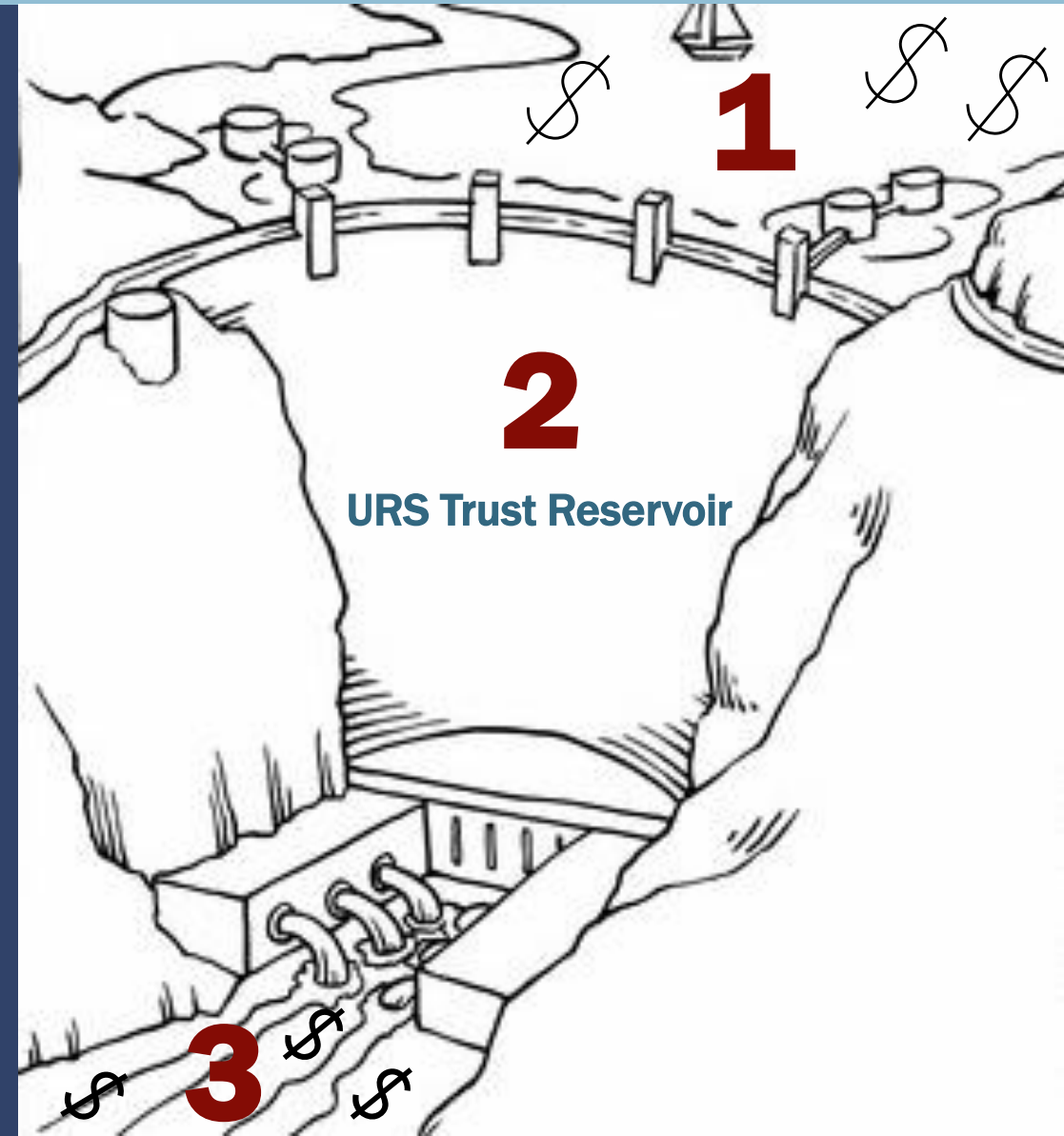
- **What is Utah Retirement Systems (URS)?**
- **What were the 2010 Utah retirement reforms?**
- **What are the benefits?** (*Formulas*)
- **When can benefits be taken?** (*Eligibility*)
- **How is URS funded?** (*Revenues*)
- **What is the funding status of the retirement systems?** (*Funded Ratio*)
- **What contributions are needed?** (*Contribution Rates*)



Like a Reservoir of Shared Funds for Members

- 1. Employer and employee contributions are deposited each pay period during working years; fund investment returns are also added**
- 2. Funds are held in trust, professionally managed and invested**
- 3. Funds are paid out monthly by formula during retirement years**

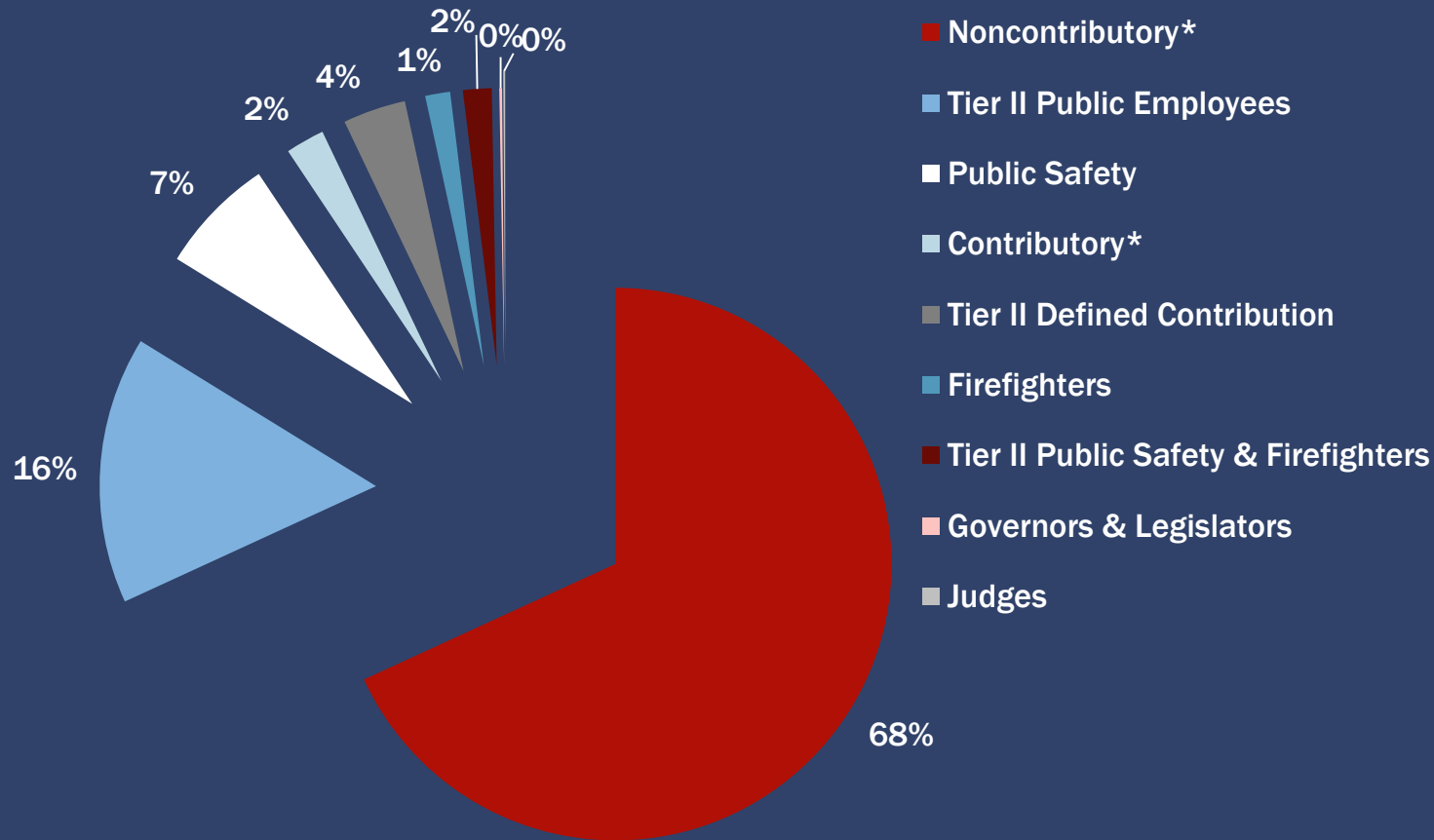
(For defined contribution plans, funds are placed in an employee's individual account when deposited.)





URS – Membership in Systems

2019



Total System Membership:
235,240
As of 12/31/2019

Includes:

- Active (currently employed)
- Terminated vested
- Retired

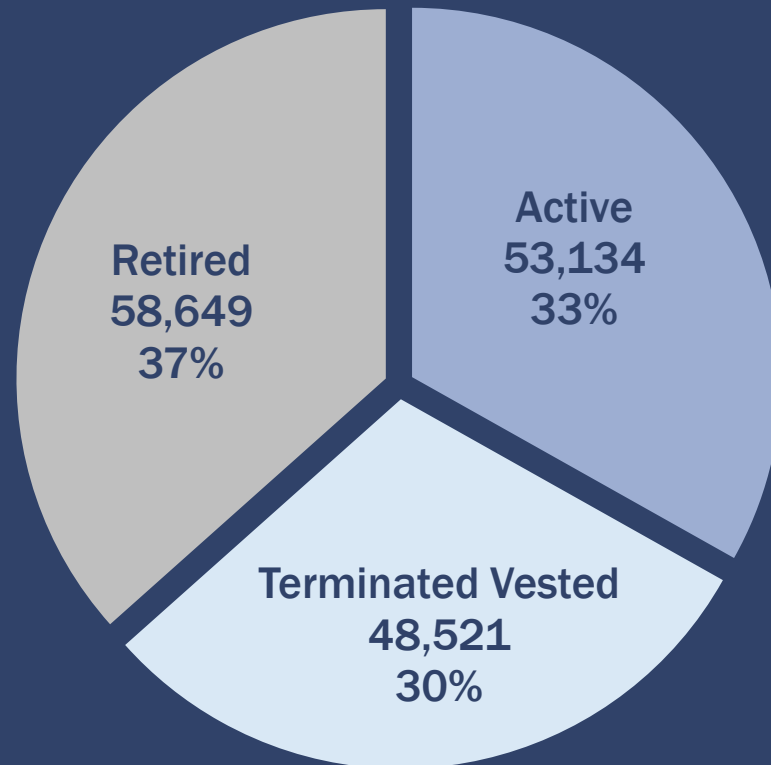
Source: Utah Retirement Systems Comprehensive Annual Financial Report for the year ending December 31, 2019

*Noncontributory systems are solely funded by employer contributions. Contributory systems are funded by a combination of required employer and employee contributions. Most newly hired public employees only participate in contributory systems.



URS – Membership in Systems

2019

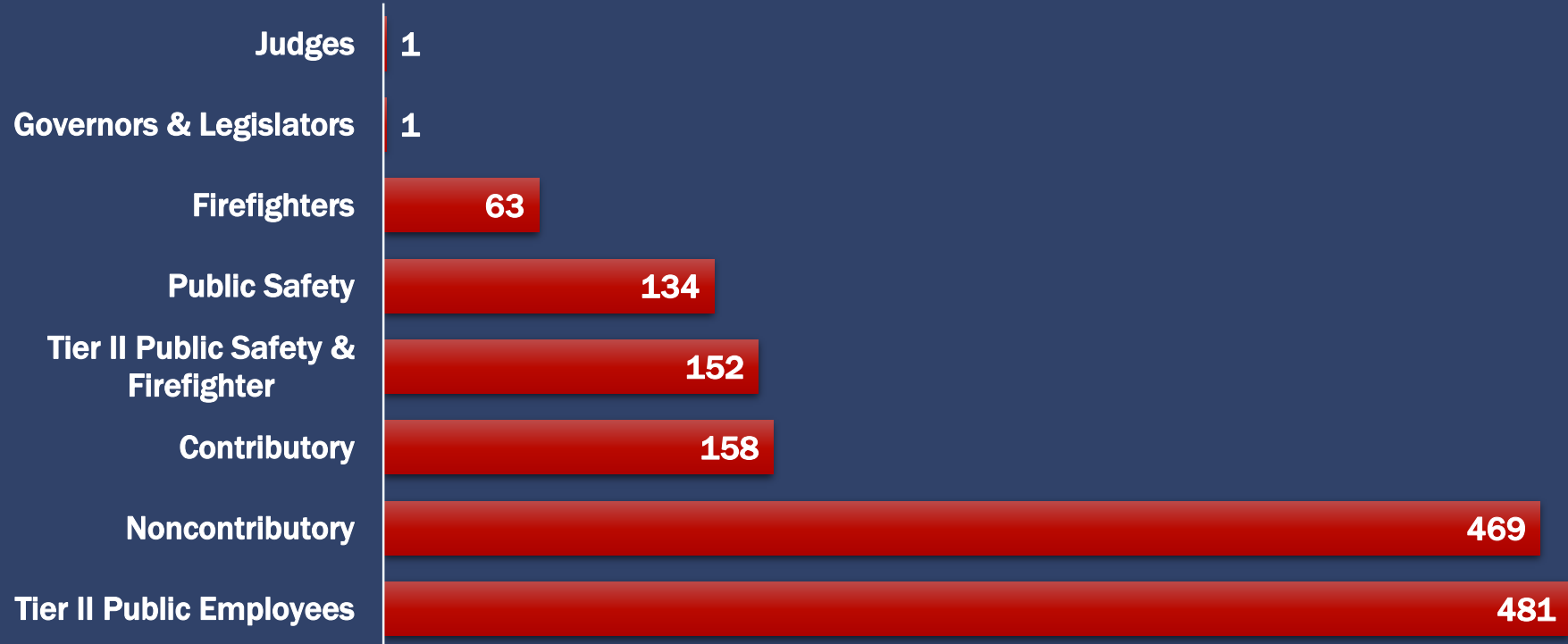


Noncontributory
("Big") System
Membership:
160,304
As of 12/31/2019



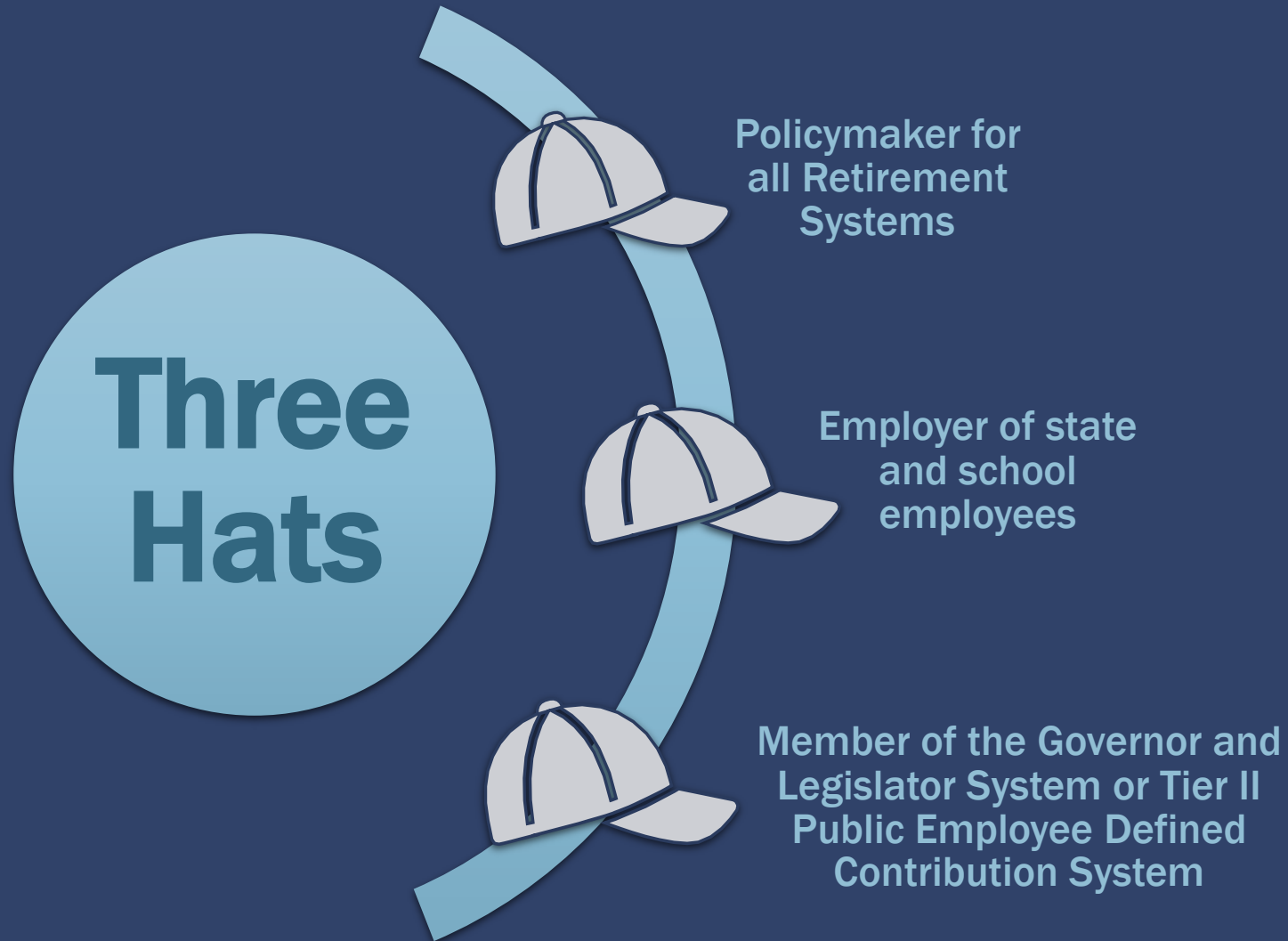
URS Participating Employers

2019





The Utah State Legislature's Role with Retirement Systems





Retirement Definitions

Utah Code Section 49-11-102

- “Actuarial interest rate” – the interest rate as recommended by the actuary and adopted by the board upon which the funding of system costs and benefits are computed (*assumed rate of return*) (6.95% for FY 2019).
- “Amortization rate” – the board-certified percentage of salary required to amortize the unfunded actuarial accrued liability in accordance with policies established by the board upon the advice of the actuary (e.g. 9.94% for FY 2020 for *public employees' noncontributory state and school*).
- “Certified contribution rate” – the board-certified percentage of salary paid to URS (on behalf of an active member) to maintain the system on a financially and actuarially sound basis (e.g. 22.19% for FY 2020 for *public employees' noncontributory state and school*).
- “Normal cost rate”:
 - Means the percentage of salary that is necessary for a retirement system that is fully funded to maintain its fully funded status; and
 - Is determined by the actuary based on the assumed rate of return established by the board.
- “Unfunded actuarial accrued liability” or “UAAL”:
 - Is determined by the systems’ actuary; and
 - Means the excess, if any, of the accrued liability of a retirement system over the actuarial value of its assets (*liability minus assets*) (\$3.2 billion for all systems as of December 31, 2019).



2010 Utah Retirement Reforms – Key Provisions*

- **Provide stricter post-retirement re-employment 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 public employees hired after July 1, 2011:**
 - 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; 12% will increase to 14% on July 1, 2020) (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. 63 “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.

2010 Utah Retirement Reforms - Key Provisions

Before
July 1, 2011

New Full-time Employee
(initial entrance)

After
July 1, 2011

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.

Tier
I

New employees may choose between:
- Tier II hybrid system; or
- Tier II Defined Contribution (DC) plan.

New governors, legislators, and other full-time elected officials are only eligible for the Tier II DC plan.

Tier
II



2010 Utah Retirement Reforms – Key Provisions

Beginning July 1, 2011

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

Sample FY 2020 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)

	Public Employees	Public Safety & Firefighters
Defined Contribution	10%	12% until June 30, 2020 14% beginning on July 1, 2020
Hybrid	10%	12% until June 30, 2020 14% beginning on July 1, 2020

Source: Utah Retirement System Contribution Rates FY 2019-2020

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



2020 Utah Retirement Reforms – Key Provisions*

Beginning July 1, 2020

- **Provides that re-employment as a part-time appointment or elected board member is not subject to post-retirement re-employment restrictions under certain circumstances.**
 - If the part-time appointed or elected board member does not receive any compensation exceeding the amount of compensation, remuneration, a stipend, or other benefit for service on a single or multiple boards, commissions, councils, committees, panels, or other bodies of no more than \$5,000 per year; and
 - May not receive an employer paid retirement service credit or retirement-related contribution.
- **Provides that a member is not required to cease service as a part-time appointed or elected board member of a participating employer under certain circumstances to be eligible to retire.**
- **Imposes minimum age requirements on certain retirees.**
 - The member has accrued at least four years of service and has attained an age of 65 years.
 - 50 years old, if the member is retiring from a public safety system or firefighter, or 55 years old.



2020 Utah Retirement Reforms – Key Provisions*

Beginning July 1, 2020

- **The state will pay a portion of the required employee contributions for the New Public Safety and Firefighter Tier II Contributory Retirement System**
 - Beginning July 1, 2020, the state, on behalf of its agencies, shall prospectively pick up and pay required employee contributions for all state employees who are members of the New Public Safety and Firefighter Tier II Contributory Retirement System, subject to a maximum of 2% of compensation for each employee.
- **Includes provisions relating to the employer pick up**
 - The picked up contributions will not be included in the gross income of the employees for tax reporting purposes, that is, for federal or state income tax withholdings taxes, until distributed from the Utah Retirement Systems, so that the contributions are treated as employer contributions pursuant to Section 414(h)(2) of the Internal Revenue Service.



2020 Utah Retirement Reforms – Key Provisions*

Beginning July 1, 2020

- **Provides that certain employee exclusions, exemptions, participation, or elections are subject to requirements under federal law and rules made by the Utah State Retirement Board;**
- **Amends the type of plans that an employer may contribute to for an employer related contribution for certain reemployed retirees;**
- **Amends the application process for payments to certain survivors based on an affidavit if there are no designated beneficiaries for the deceased member;**
- **Authorizes premium payments for eligible retired firefighters and public safety officers to be made from a defined contribution plan;**
- **Clarifies that a retiree may be eligible to earn additional service credit in a reemployed position, regardless of whether the retirement allowance was cancelled by the Utah State Retirement Office or at the retiree's election;**
- **Modifies provisions relating to the forfeiture of retirement benefits to:**
 - Clarify that reduced charges in accordance with all plea agreements may be considered convictions; and
 - establish procedures to be used for an employee appeal of the employer's determination if the Administrative Procedures Act is not applicable to that employer;
- **Authorizes, but does not require, an employer to elect to make all of its exchange employees eligible for retirement participation;**
- **Modifies provisions to provide notice of the available death benefits for public safety and firefighter members of the Tier II Defined Contribution Plan; and**
- **Makes technical changes.**



2020 Utah Retirement Reforms – Key Provisions

Beginning July 1, 2020

- Provides that a portion of the revenues collected from the tax on the admitted insurers shall be deposited in the New Public Safety and Firefighter Tier II Retirement Benefits Restricted Account;
- Provides that funds in the New Public Safety and Firefighter Tier II Retirement Benefits Restricted Account shall be used to fund state agency costs associated with the employer pick up for employees that are members of the New Public Safety and Firefighter Tier II Retirement System and the Public Safety and Firefighter Tier II Hybrid Retirement System; and
- Requires a participating employer to make an additional nonelective contribution to an employee that is a member of the Public Safety and Firefighter Tier II Defined Contribution Plan, if the participating employer elects to pay the required member contribution as an employer pick up for employees that are members of the Public Safety and Firefighter Tier II Hybrid Retirement System.



URS – 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) (All judges remain in Tier I)

- New Public Employees Tier II Contributory
 - Hybrid
 - Defined Contribution (includes Governors and Legislators)
- New Public Safety and Firefighters Tier II Contributory
 - Hybrid
 - Defined Contribution



URS – Tier I Systems (with divisions)

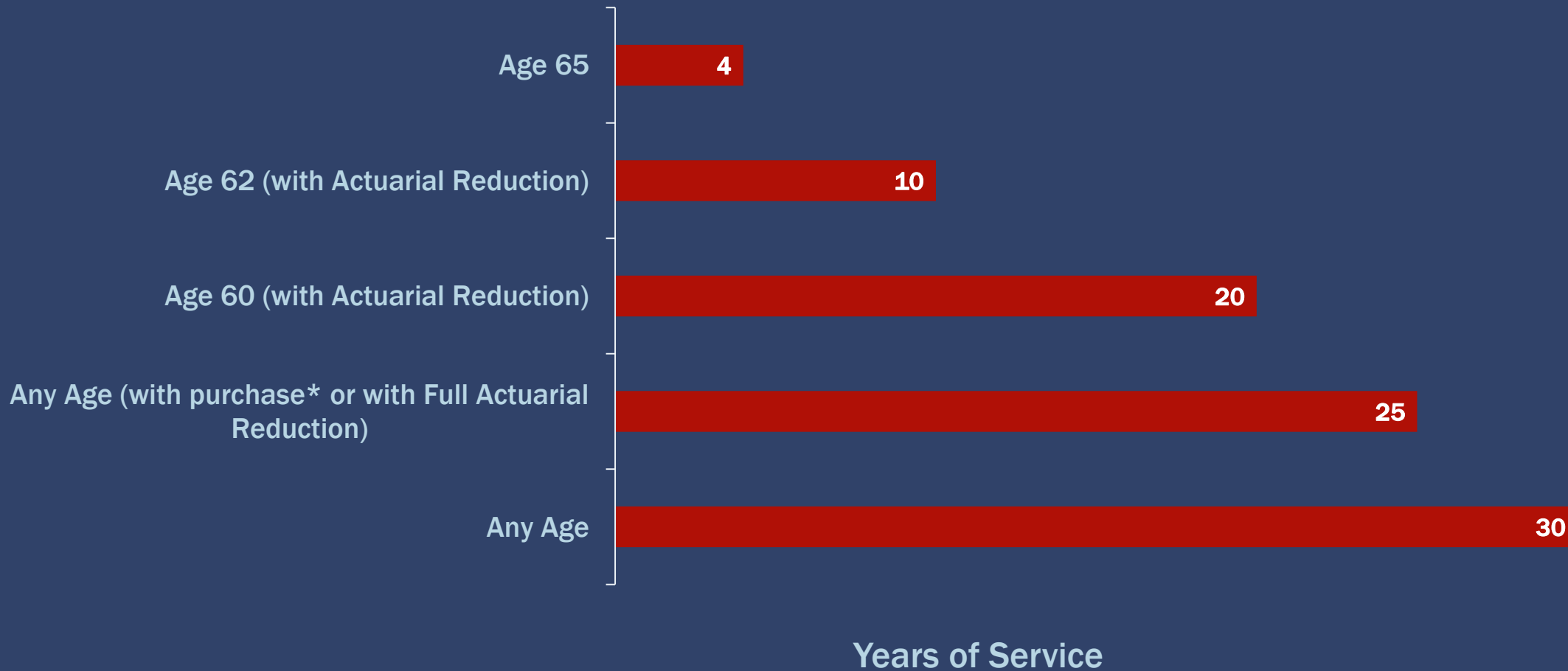
- **Public Employees Noncontributory**
- **Public Employees Contributory**
- **Public Safety** (divisions also include a 2.5% or 4% COLA)
 - Noncontributory – Division A (with Social Security)
 - Noncontributory – Division B (without Social Security)
 - Contributory – Division A (with Social Security)
 - Contributory – Division B (without Social Security)
- **Governors and Legislators**
- **Judges**
 - Noncontributory
 - Contributory
- **Firefighters Contributory**
 - Division A (with Social Security)
 - Division B (without Social Security)

Similar divisions exist for Tier II systems, but only for purposes of calculating the Tier I amortization rate for each existing risk pool.



URS – Tier I Eligibility

Tier I Public Employees' Noncontributory

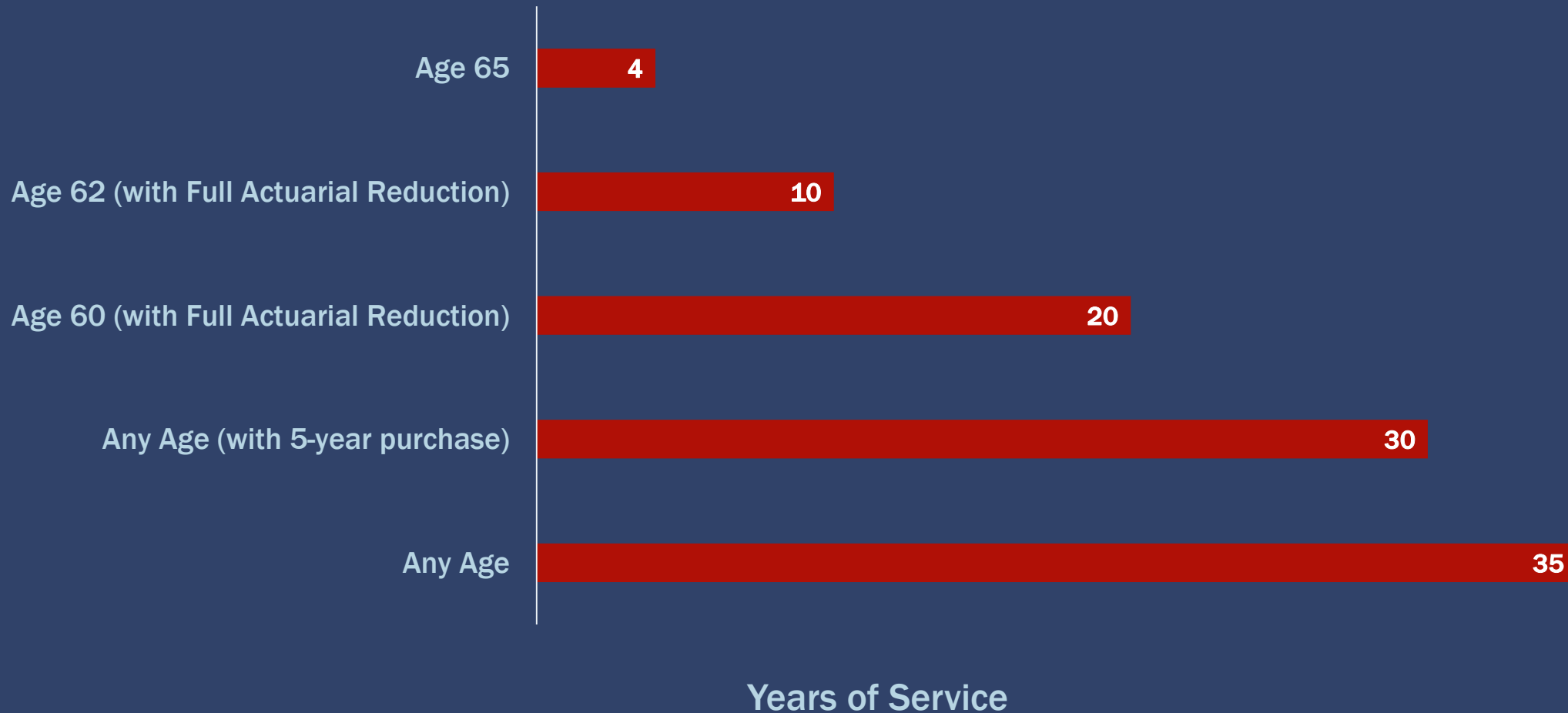


*Not available in the Contributory System



URS – Tier II Eligibility

Tier II New Public Employees' Contributory Hybrid





URS – Tier I Benefit Formulas

Defined Benefit – Public Employees Noncontributory Retirement

Three allowance components:

- Years of Service (years of service credit)
- Multiplier (e.g. 2%* per year of service)
- Final Average Salary (average of highest three** years)

*1.5% for Tier II Hybrid

**Five years for Tier II Hybrid



Employees' Tier I Noncontributory Formula

Years of Service × 2% × Final Average Salary (FAS)

Example:

30 Years	×	2 %	×	<table border="0"><tr><td>Year 1</td><td>\$45,779</td></tr><tr><td>Year 2</td><td>\$47,684</td></tr><tr><td>+ Year 3</td><td>\$49,590</td></tr><tr><td colspan="2"><hr/></td></tr><tr><td></td><td>\$143,053</td></tr></table>	Year 1	\$45,779	Year 2	\$47,684	+ Year 3	\$49,590	<hr/>			\$143,053	(FAS = Average of highest 3 years)
Year 1	\$45,779														
Year 2	\$47,684														
+ Year 3	\$49,590														
<hr/>															
	\$143,053														
$\$143,053 \div 3 = \mathbf{\$47,684}$															

30 years × 2% × \$47,684 = \$28,611



URS – Tier II Allowance Formula

Tier II Public Employees’ Contributory Hybrid includes:

1. A defined benefit as shown in the formula below; and
2. A defined contribution from the employer into a 401(k), if less than 10% of salary is needed to fund the defined benefit. (For FY ‘20 the 401(k) DC is 1.03%)

Defined Benefit Formula: Years of Service × 1.5% × Final Average Salary (FAS)

Example:

$$\boxed{35 \text{ Years}} \times \boxed{1.5\%} \times$$

Year 1	\$44,869
Year 2	\$45,779
Year 3	\$47,684
Year 4	\$49,590
+ Year 5	\$50,500
<hr/>	
	\$238,422
\$238,422 ÷ 5 = \$47,684	

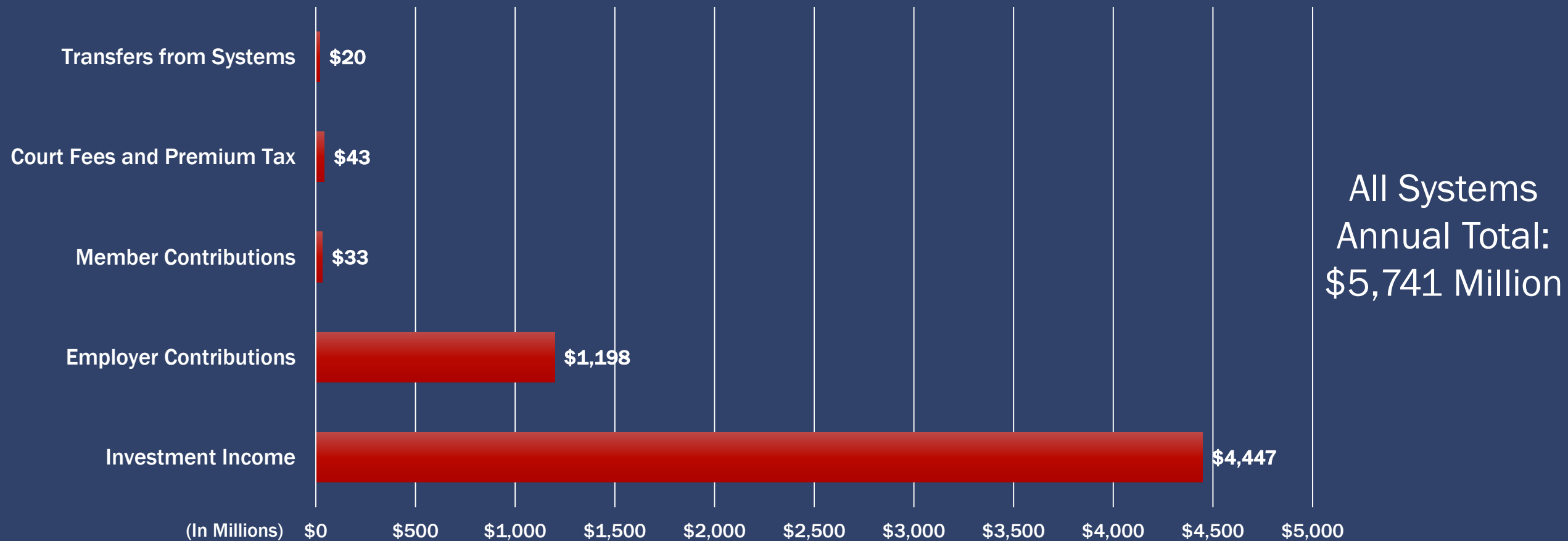


$$30 \text{ years} \times 1.5\% \times \$47,684 = \mathbf{\$25,034}$$

FAS = Average of highest 5 years



Utah Retirement Systems Revenue Sources

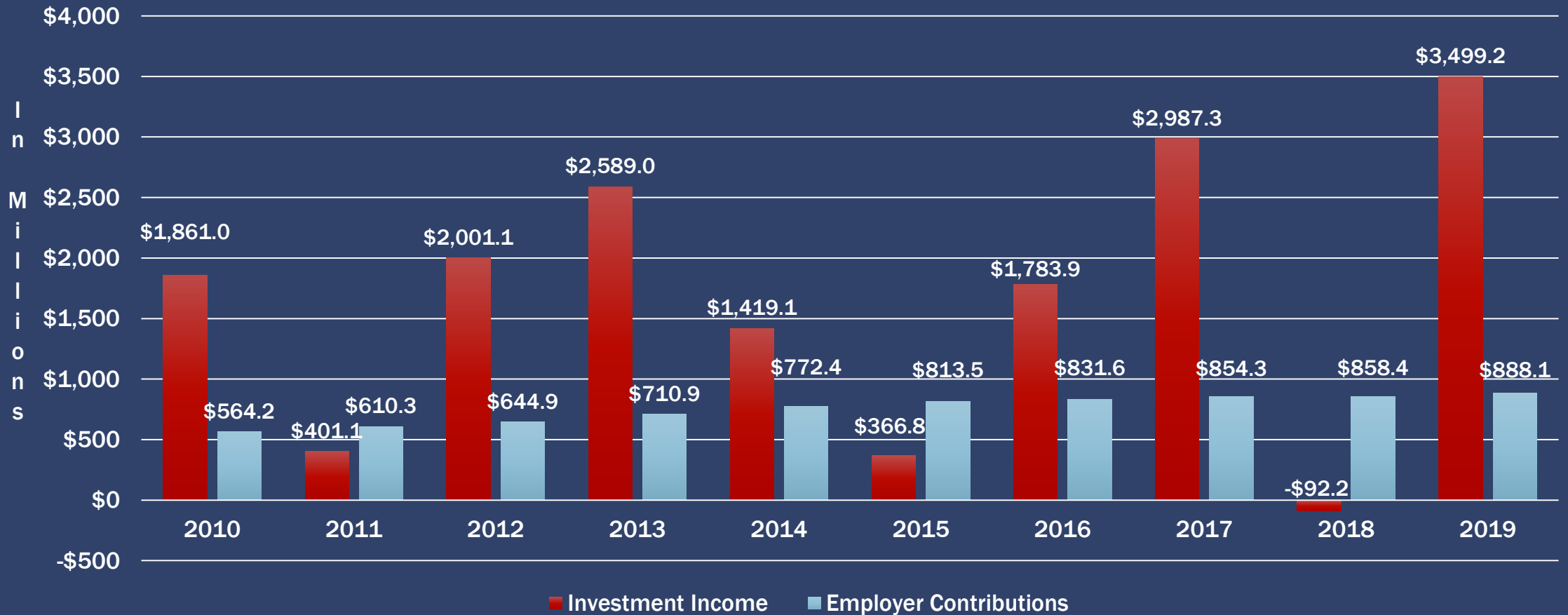




Utah Retirement Systems

Tier I Noncontributory System – 10 Year Revenue Sources

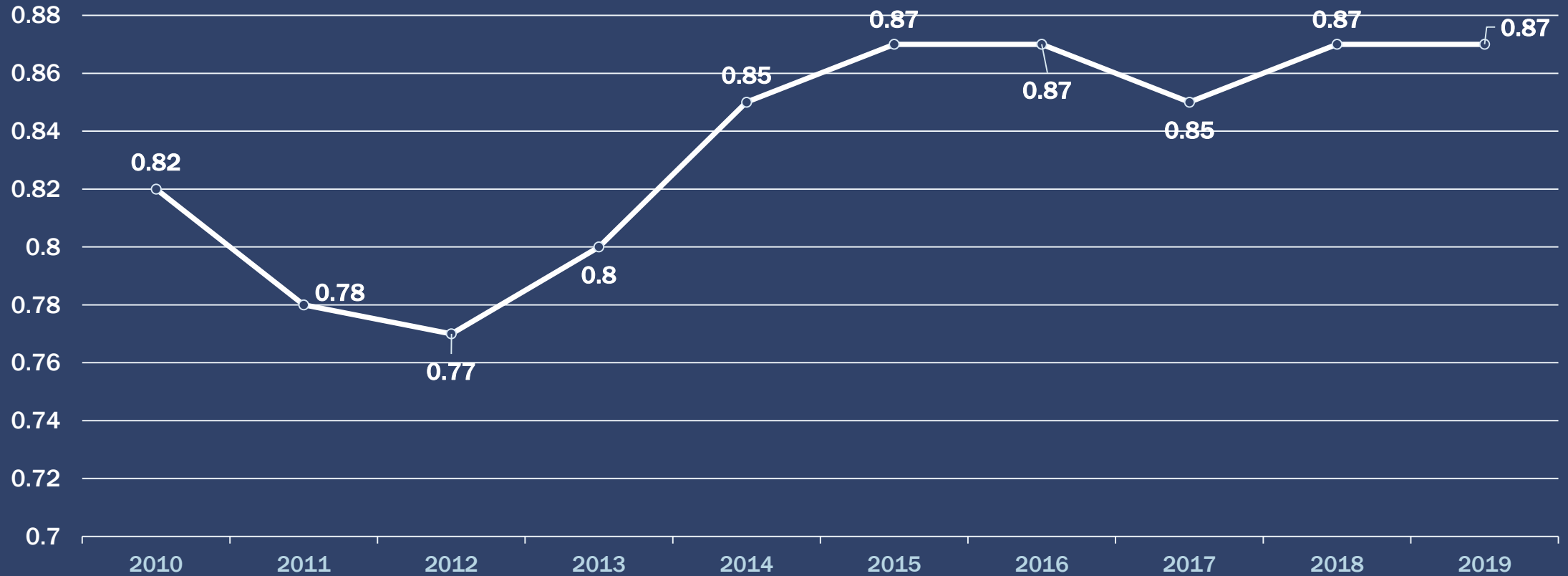
(Does not include Transfers from Systems and Member Contributions averaging \$7.72 and \$16.59 million, respectively)





URS – Funded Ratio History

All Systems by Year

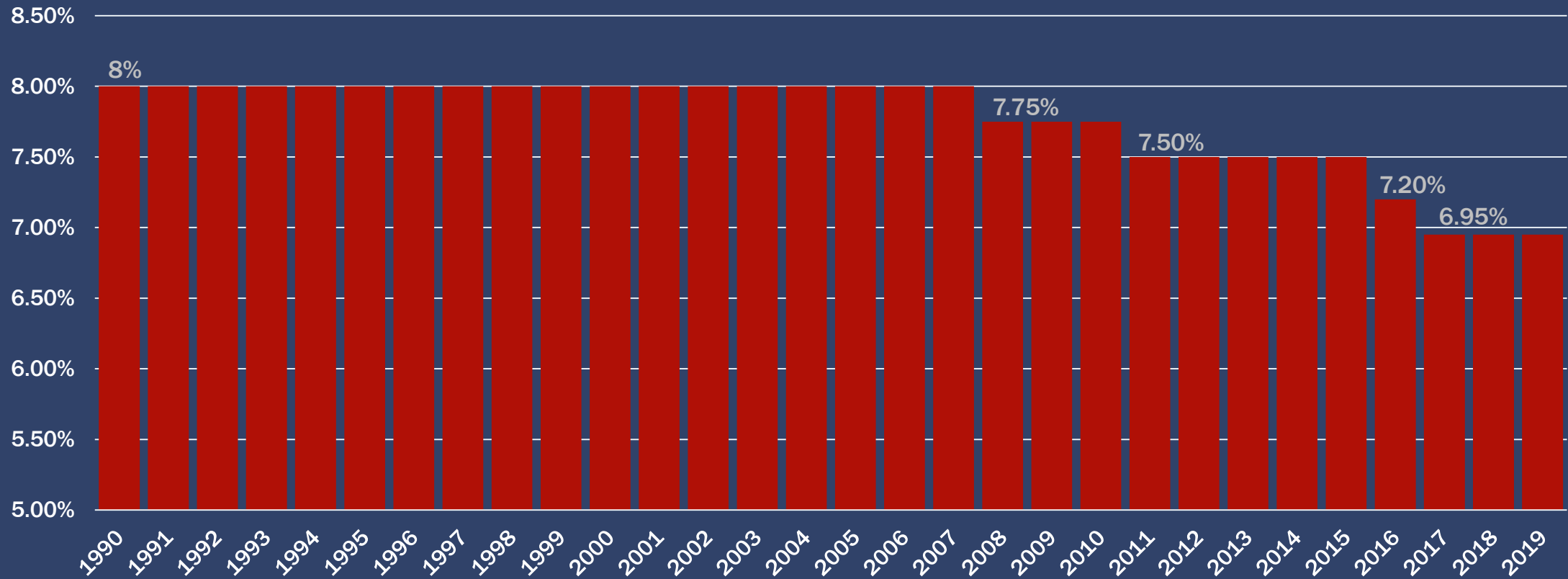


Funding Ratio = value of assets ÷ accrued liability



Historic URS Actuarial Interest Rate

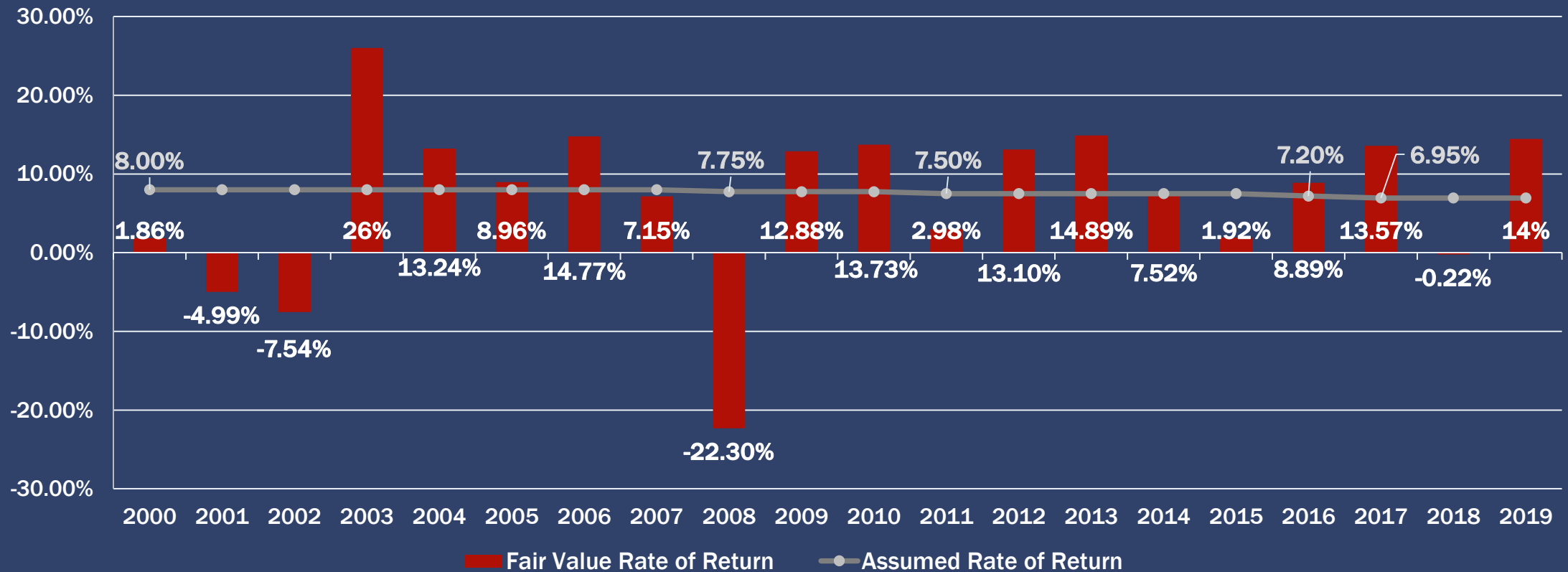
Assumed Rate of Return on Investments





Historic URS Rate of Return on Investments

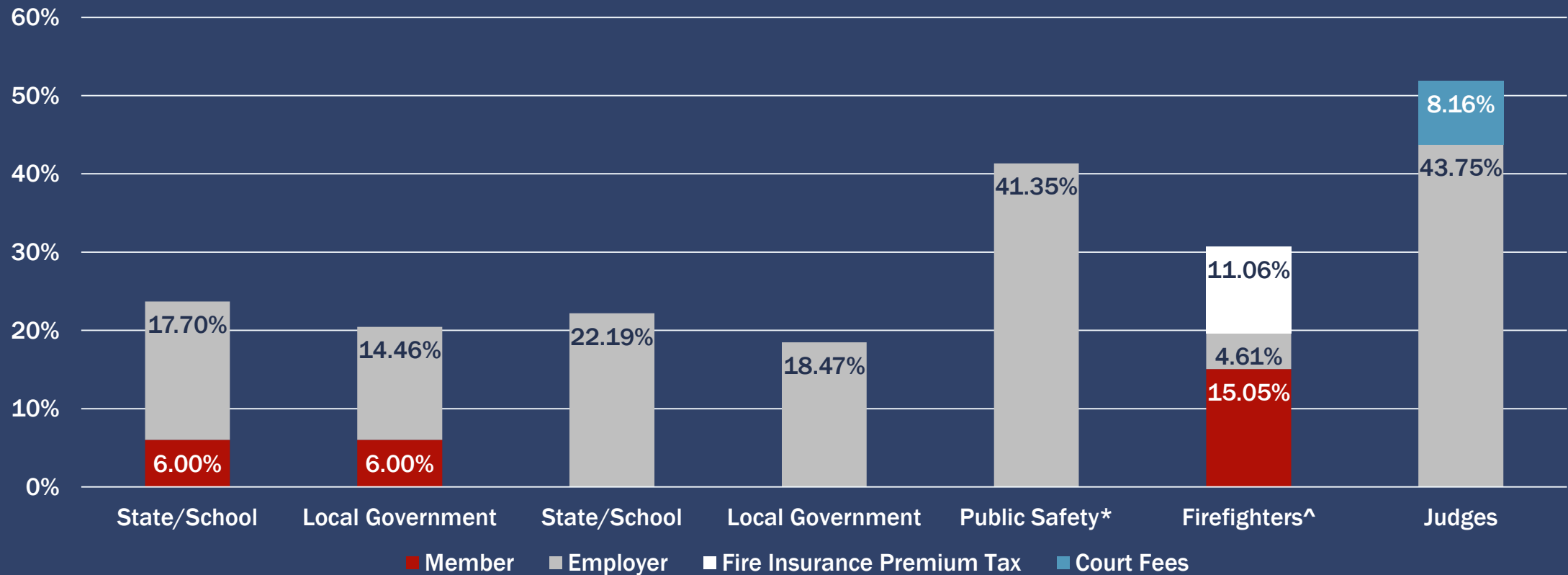
20-Year History: 2000 - 2019





URS – Tier I Contribution Rates

FY 2020 – Percentage of Salary



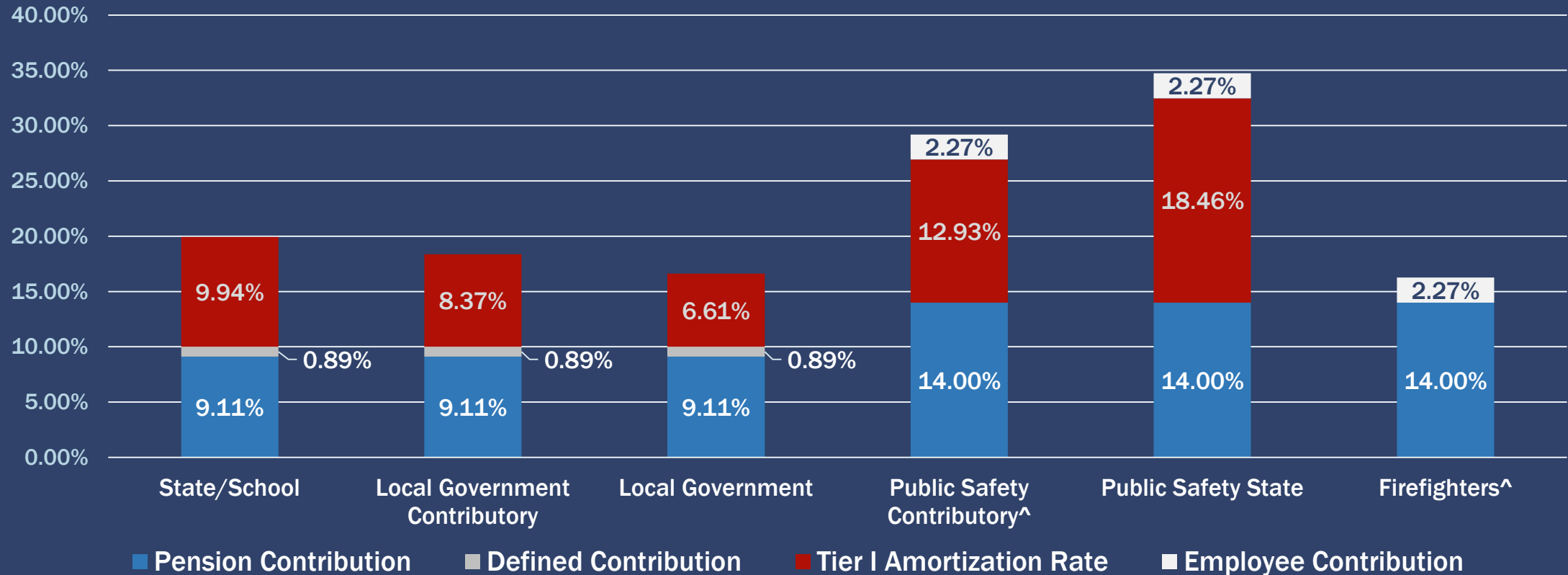
*State Employees with 4% COLA ^ State Employees with Social Security (Division A) only

Source: Utah Retirement Systems Final Tier 1 Contribution Rates as a Percentage of Salary and Wages for FY July 1, 2019 – June 30, 2020.



URS – Tier II Hybrid Plan Contribution Rates*

FY 2020 – Percentage of Salary



*Death Benefit rate not included (0.08% for public employees and 0.08% for public safety and firefighters)

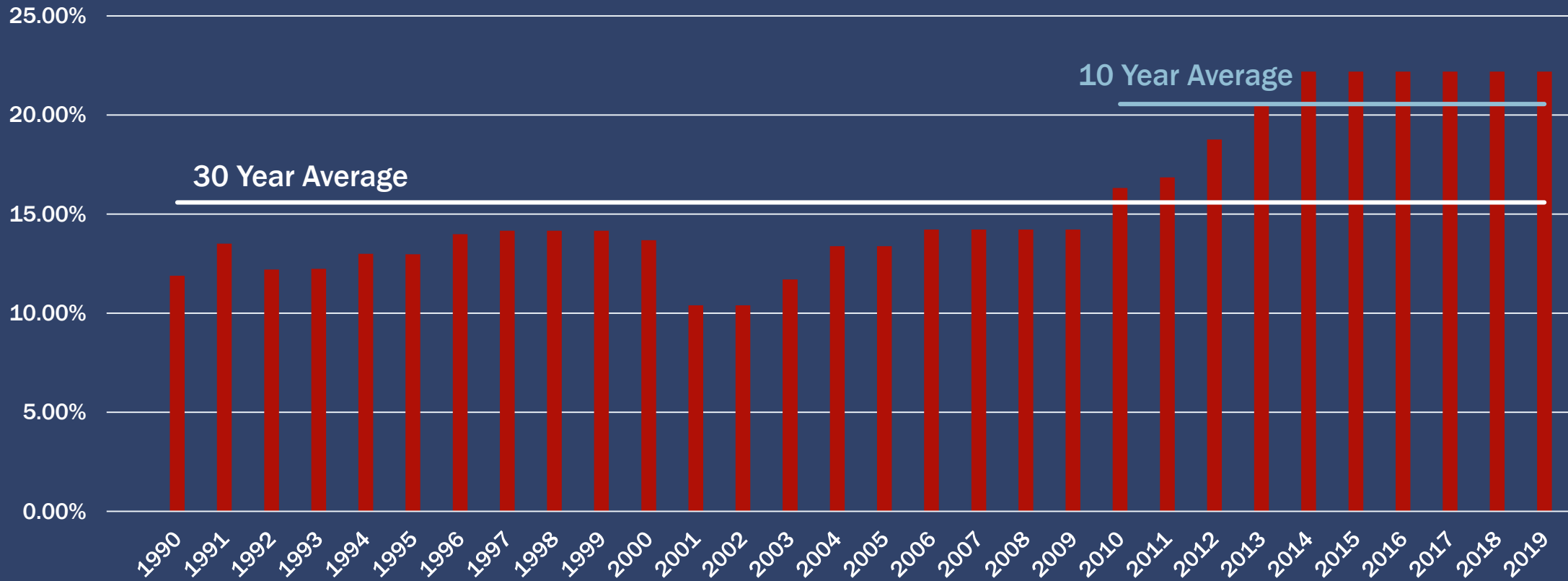
^Employees with Social security (Division A) with 2.5% COLA

Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2019– June 30, 2020



Public Employee's Noncontributory Contribution* Rate History

State and School – Percentage of Salary



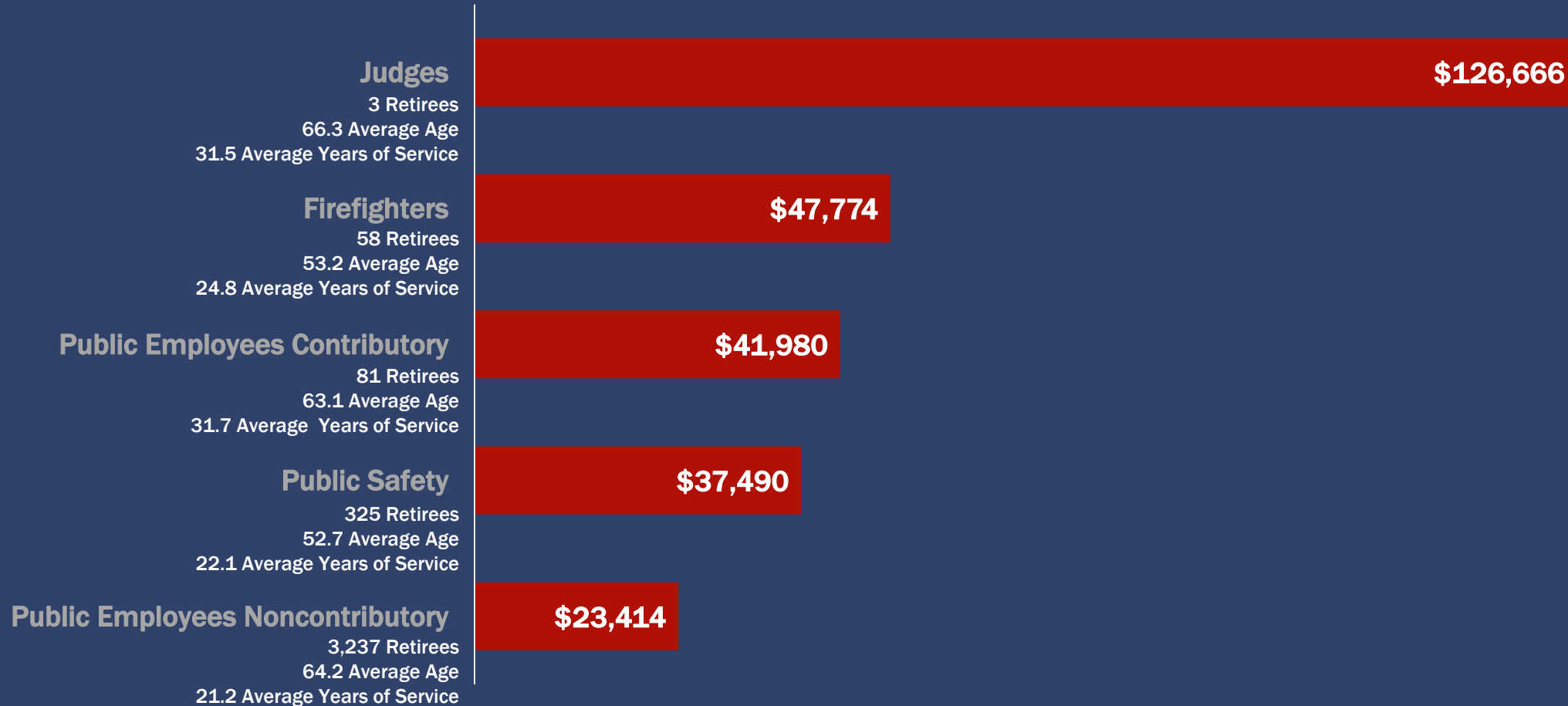
*Does not include the required 1.5% 401(k) contribution

Source: Utah Retirement System



Average Annual Benefit (Retirement Allowance)

2019 Retirees





OFFICE OF LEGISLATIVE RESEARCH AND GENERAL COUNSEL

Utah State Capitol Complex | W210 House Building | P.O. Box 145210 | Salt Lake City, Utah 84114 - 5210 | O: (801) 538-1032 | F: (801) 538-1712