



# Proposed Changes to Retirement Policy and Associated Fiscal Impacts

Presentation to the Retirement and Independent Entities Interim Committee

May 17, 2022



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# Key Retirement 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.

# Review of Annual Comprehensive Financial Report



- » For the year ended Dec. 31, 2021
- » Systems Highlights
- » Membership Demographics
- » Key Financial Highlights
- » Retirees and Average Benefit Payments
- » Returns and Performance
- » Available online:

<https://newsroom.urs.org/public-financial-information>



# Defined Benefit Key Stats at Dec. 31, 2021



\$45.1 Billion  
(net position)



17.5%  
(Rate of Return)



245+ thousand  
Members  
(active, vested, and retired)



488  
Active  
Employers



75+ thousand  
(Retirees and Beneficiaries)



94% Funded  
(Actuarial smoothed value  
of assets)

*Record year in total  
investment income*



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# Legislature's Role & Statutes

- » Plan design, policy, and benefit specifications for the defined benefit (DB) retirement systems are established in statute by the Legislature.
- » Utah Code Title 49 is the “Utah State Retirement and Insurance Benefit Act.”
- » Title 49 is the “plan document” for the DB systems.
- » Retirement “rules” are policy and financial decisions for the Legislature, including membership eligibility, level of benefits, and eligibility for retirement.



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# Legislative Retirement Reforms

- » Following the 2008-2009 global financial crisis, the Legislature enacted major retirement reforms for Utah's public employees in the 2010 General Session:
  - › Created a different retirement benefit structure called Tier 2 for public employees hired on or after July 1, 2011; and
  - › Enacted post-retirement reemployment restrictions for future retirees, including a one-year separation period between retirement and a return to work.



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# URS' Role: Administrator

- » The administrator of the systems, plans, and programs established under Utah Code Title 49.
- » Retirement Board members serve as the trustees of the Retirement Investment Fund and approve contribution rates and take actions required to maintain the retirement systems on an actuarially and financially sound basis.
- » Responsibility to inform stakeholders about the impacts of changes to retirement rules on contribution rates, including providing fiscal analysis on bills.

# URS Role: Legislation

- » As the administrator, generally URS is neither for nor against current benefit provisions or proposed legislative changes in bills.
- » The Utah State Retirement Board may, pursuant to its statutory authority and through the Executive Director and General Counsel, speak openly and candidly about or take a position regarding legislation or proposed actions, including those that would, in its opinion:
  - › impact the sustainability of public employee benefits;
  - › materially impact or cut public employee benefits; or
  - › raise administration problems or costs for the Office.



# Consulting Actuary's Role

- » Recommends actuarial assumptions to the Utah State Retirement Board:
  - › Economic assumptions (Includes inflation, salary increases, and investment rate of return)
  - › Demographic assumptions (Includes pre-retirement turnover, disability, retirement, and mortality)
- » Calculates the liability of the retirement systems
  - › Membership data, plan provisions, actuarial assumptions
- » Provides fiscal analysis on bills
- » Recommends the contribution rates for Board approval that are required to fund the retirement systems

# Defined Benefit Plans Funding

- » Investment income (the largest source of funding):
  - › \$6.7 billion in 2021 (Record High)
  - › \$23.3 billion over the last 10 years
- » Contributions totaled \$1.4 billion in 2021; \$11.1 billion over the last 10 years
- » Retirement benefit payments:
  - › Paid nearly \$2.0 billion in 2021, a \$103.5 million increase
  - › 10-year total is \$15 billion
- » URS paid out \$594 million more in benefits compared to contributions received in 2021

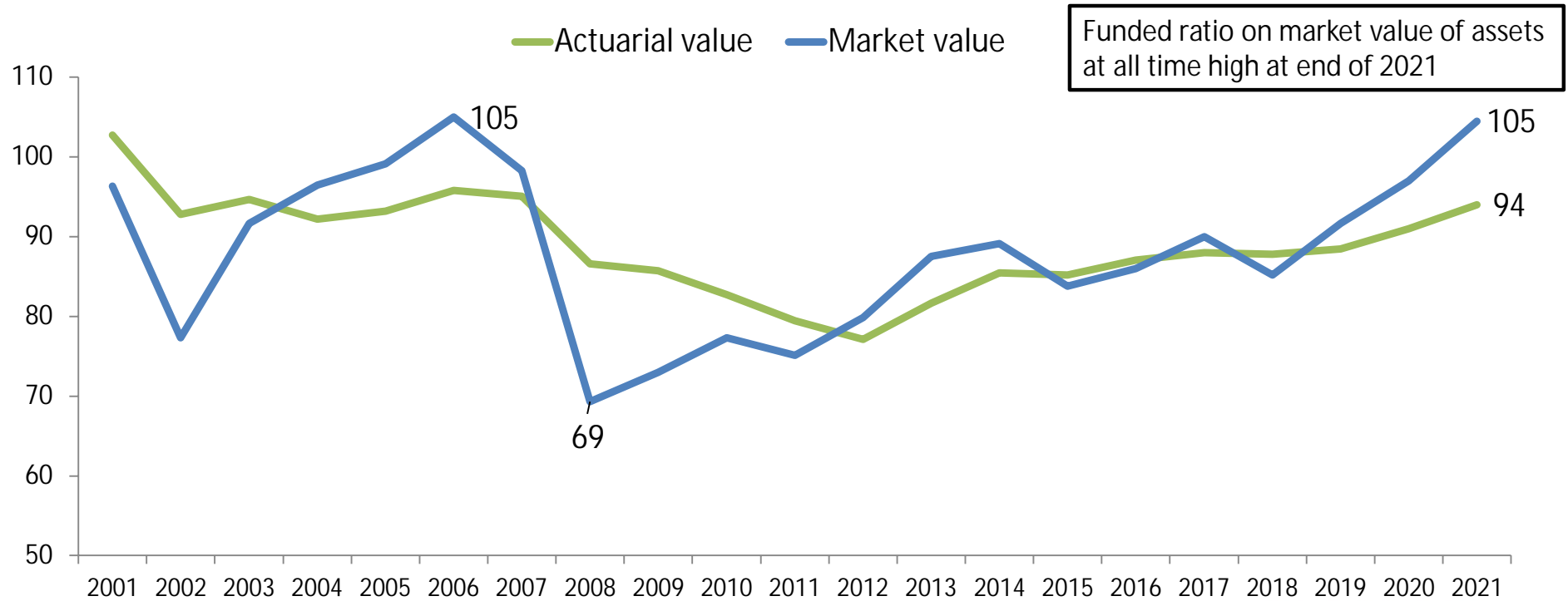
*For the year ended Dec. 31, 2021*



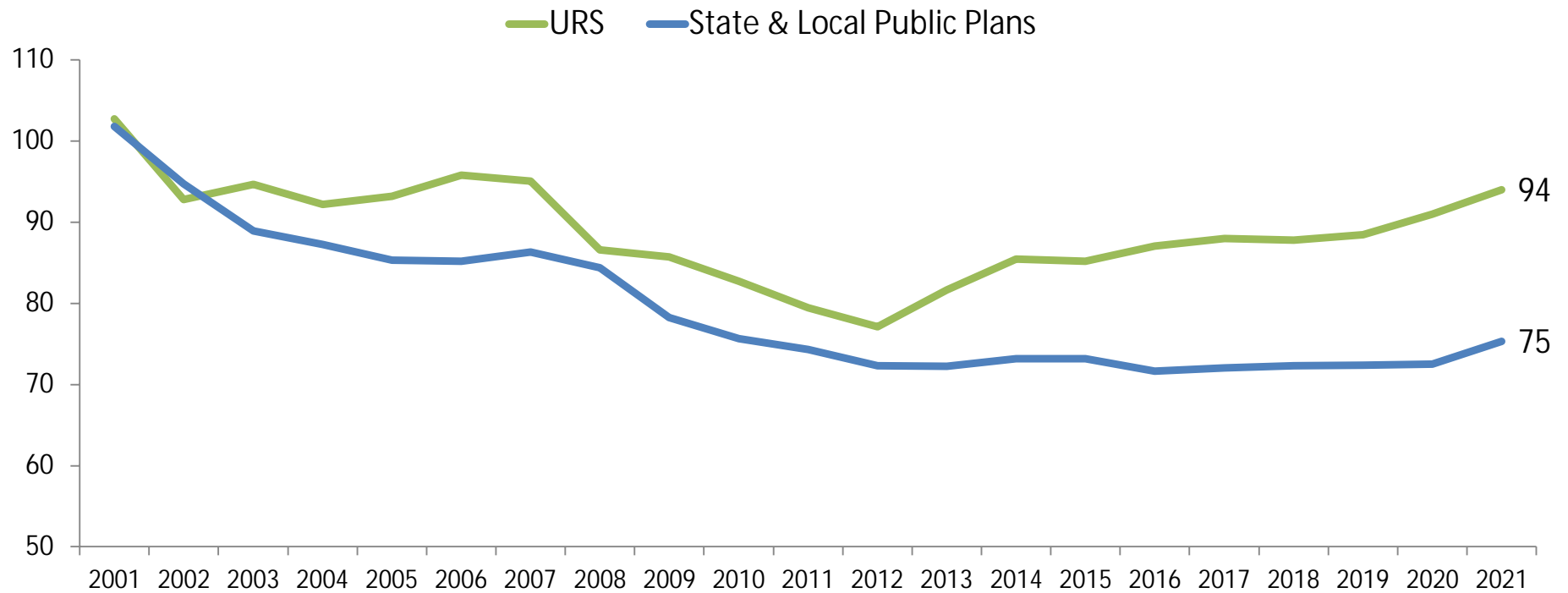
# Funded Ratio

- » 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.

## DB Plan Funded Ratio (at Dec 31)



# Actuarial Funded Ratio Smoothed (at Dec. 31)



Aggregate funded ratio of state and local public plans – *Public Plans Database*  
National data averages are weighted by plan size

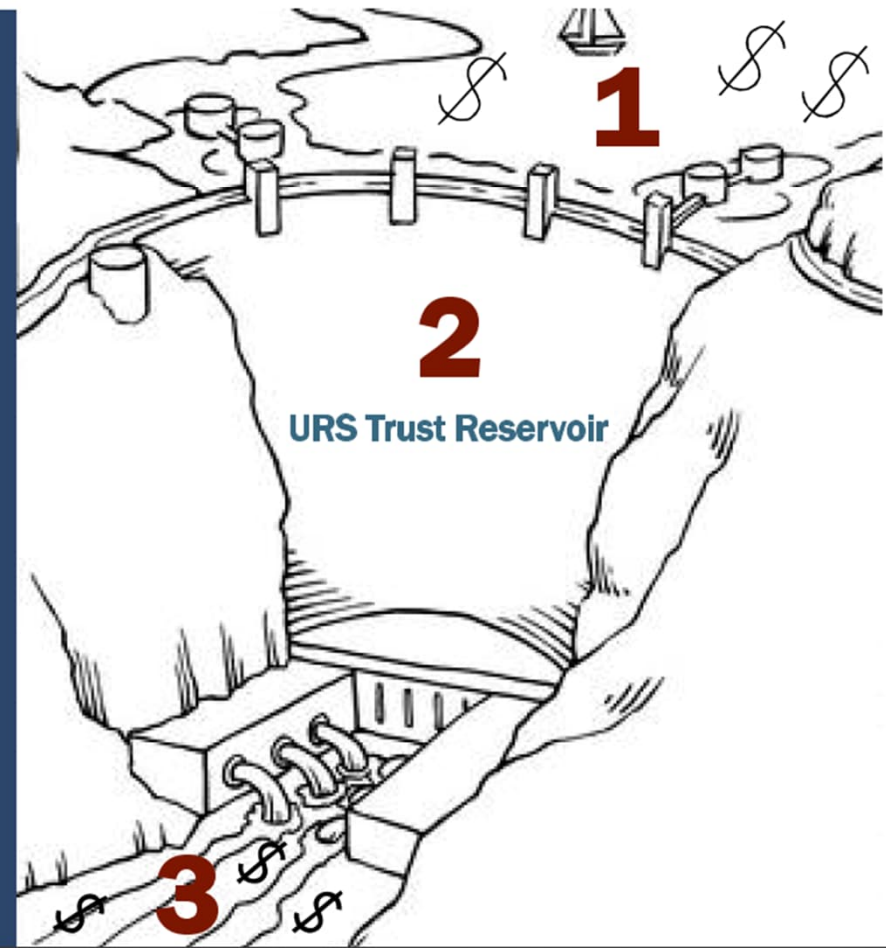




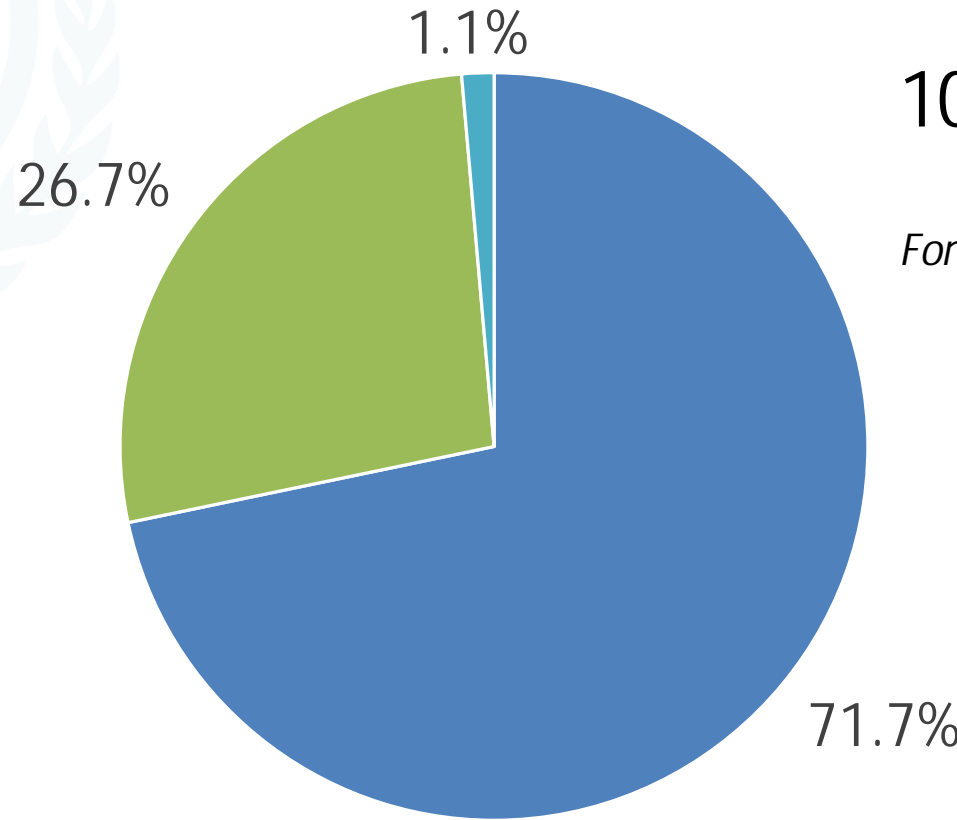
## Reservoir of Shared Funds for Members

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.)*



# DB Plan Additions by Source



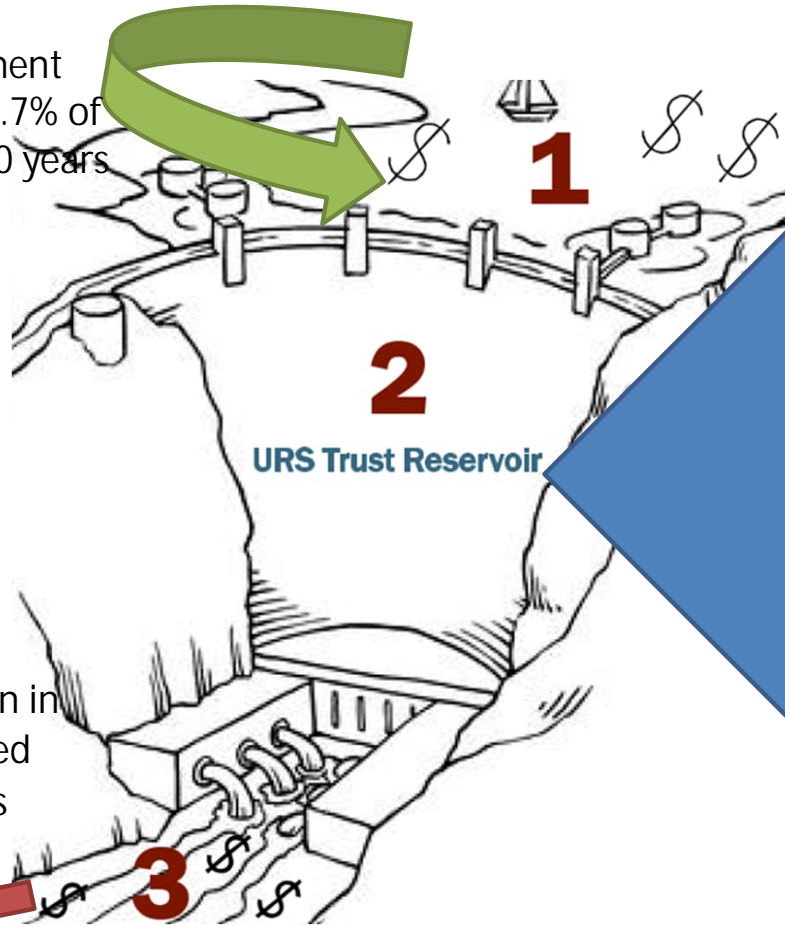
10-year Average

*For the period ended Dec. 31, 2021*

■ Net investment income ■ Contributions ■ Fire insurance premium taxes, budget appropriations, and court fees

# DB Trust "Reservoir" Analyzed

\$6.7 billion investment income in 2021 (71.7% of funding over last 10 years)



\$1.4 billion employer & some member contributions in 2021 (26.7% of funding over last 10 years)

The Fund at Dec. 31, 2021:  
\$40.2 billion: Actuarial value  
\$45.1 billion: Market value

Nearly \$2.0 billion in retirement defined benefit payments paid in 2021





# 2022 Retirement Reform Bills

- » Tier 2 Public Safety and Firefighters' System reform: 1) 20-year retirement; 2) Multiplier increased to 2.50% for each of the first 20 years of service and 2.0% for each year of service after that; and 3) Make the multiplier increase apply to all the years of service. (*H.B. 12*)
- » A new working retiree exception to the Utah Code's Postretirement Reemployment Restrictions Act. (*9 separate versions of bills were numbered*)

# Plan Elements are Like Levers

Changing defined benefit system provisions may be like pulling one or more levers.



Changes may enhance benefits but may increase costs for employers and some members significantly (and usually ongoing).

# Key Term: “Working Retiree”

A retiree who returns to work for a participating employer, earning another salary while continuing to receive a monthly retirement allowance from URS.

This may be called:

- » Post-retirement reemployment
- » Return to work
- » Double dipping
- » Working retiree



# Return to Work Current Restrictions

- » Current Utah statutes require URS to suspend the retirement allowance for members who become reemployed with a participating employer within one year of their initial date of retirement unless the member's postretirement reemployment qualifies for one of the exceptions provided in the statutes.
- » One exception allows working retirees who are reemployed after 60 days with a bona fide termination, don't receive employer provided benefits, and whose salary is limited during a calendar year (\$18,059.82 for 2022). The one-year separation period begins to run after this reemployment ends.

# Statutory Restrictions & Changes

- » “A postretirement employment restriction is designed to prevent additional costs to the retirement system by discouraging earlier than normal retirement or at least eliminate incentives to retire earlier than normal (i.e., when the retiree is done working).”\*
- » Costs and funding are fundamental, long-term issues that the Legislature must prioritize within the constraints of limited public funds when it considers pension policies and the benefit changes in retirement bills.
- » Post-retirement Reemployment is the most frequent topic of retirement bills

\*Utah Postretirement Employment Restrictions, OLRGC Briefing Paper, December 2014



# Enacted Bills

## Making Substantive Changes to Post-Retirement Reemployment Rules

- 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”
- 2020 S.B. 217, “State Retirement Amendments”

# Working Retirees

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

- » Members can increase personal financial resources late in career
- » Employers may benefit from the ability to recruit and utilize recent retirees in their workforce
- » Increased retirement costs are paid from the Retirement Funds resulting in increased contribution rates for members (Tier 2 Hybrid) and employers (including those that do not hire retirees)





# Working Retiree Cost Principles

- » It is more expensive 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? How does this increase benefit payment costs and result in lost investment earnings that must be covered with additional contributions?)
- » Costs or savings are realized over a very long term and are hidden in the systems unless specifically identified and analyzed.





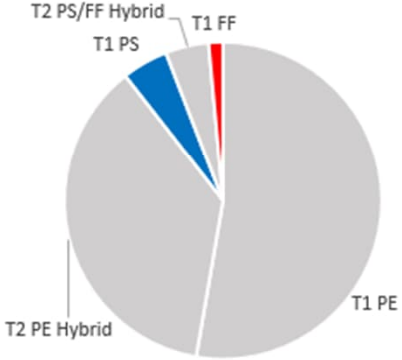
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# Working Retiree Costs

- » See the “Summary of 2022 General Session Retirement (Defined Benefit/Pension) Reform Bills” for details about affected systems, a summary of the changes, and fiscal impact.

# Working Retiree Costs:

## Example: H.B. 12, 1<sup>st</sup> Substitute Version

<p>1<sup>st</sup> Substitute H.B. 12</p> <p>Public Safety Retirement Amendments</p> <p>Rep. Gwynn</p>	<p>T1 PS &amp; FF Systems</p>  <p>T2 PS/FF Hybrid</p> <p>T1 PS</p> <p>T1 FF</p> <p>T2 PE Hybrid</p> <p>T1 PE</p>	<p>Enacts a new exception to the Postretirement Reemployment Restrictions to provide a 42-month window (i.e. January 1, 2023, to June 30, 2026) where the required separation period for public safety and firefighter retirees would be reduced from one year to 90 days to seek reemployment and continue their monthly retirement allowance uninterrupted.</p>	<p><b>\$33.33 Million</b></p> <p><b>\$10.44 Million for Tier 1 PS/FF Funds (Only for 4 years)</b></p> <p>Tier 1 PS Funds: Increases ranging from 1.18% to 2.10%. Tier 1 FF Funds: Increases ranging from 0.64% to 1.24%.</p> <p>Tier 1 PS Funds: Decreases ranging from 0.00% to -0.70%. Tier 1 FF Funds: Decrease of -0.40.</p>	<p>Passed House; referred to Interim study in Senate committee</p>
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# Working Retirees:

2021 average PS retiree example:

Defined benefit: 2.5% X Final Average Salary X years of service up to 20 years; plus  
2.0% X Final Average Salary X years of service over 20 years.

Return to work examples:

Full-time:           \$37,027 retirement benefit  
                          +\$71,158 Salary (Return to work with same salary)  
                          \$108,185 working retiree compensation (52% increase)

Half-time:           \$37,027 retirement benefit  
                          +\$35,579 Salary (Return to work with same salary, half-time)  
                          \$72,606 working retiree compensation (2% increase, working half-time)

Tier 1 Public Safety Retirement System	
2021 Retirees .....	388
Average age .....	53.1
Average years of service .....	23.1
Final average annual salary.....	\$71,158
Average annual benefit.....	\$37,027

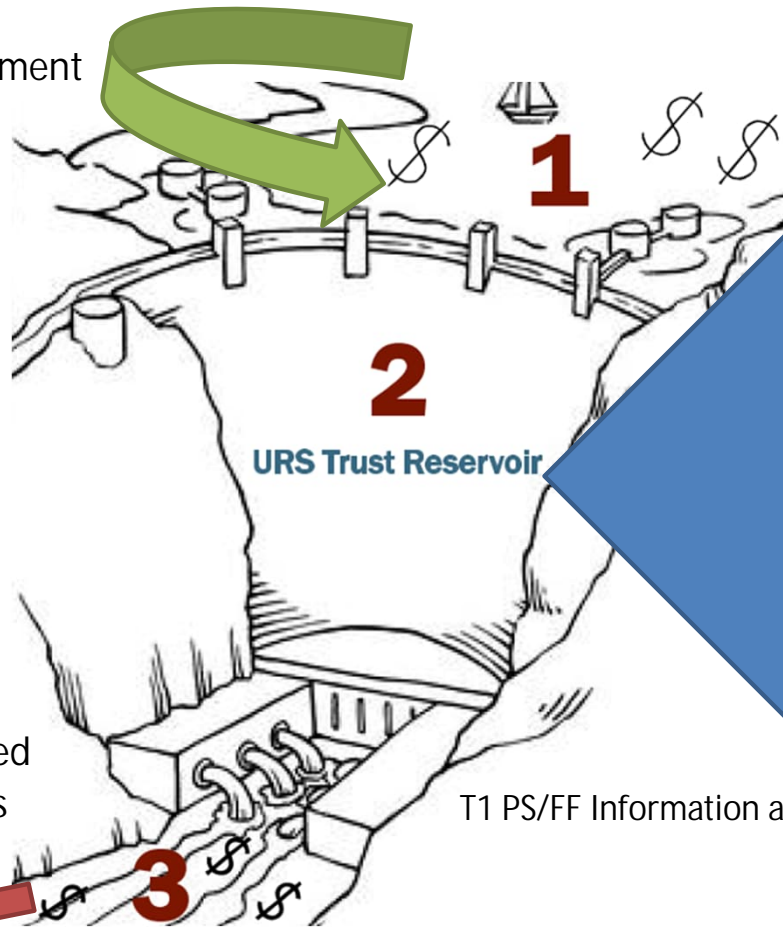
The actuary adjusts retirement assumptions to reflect anticipated changes in retirement behavior.



# T1 PS/FF DB Trust "Reservoir" Analyzed

\$671 million investment  
income in 2020

\$198 million employer and  
member contributions in 2020

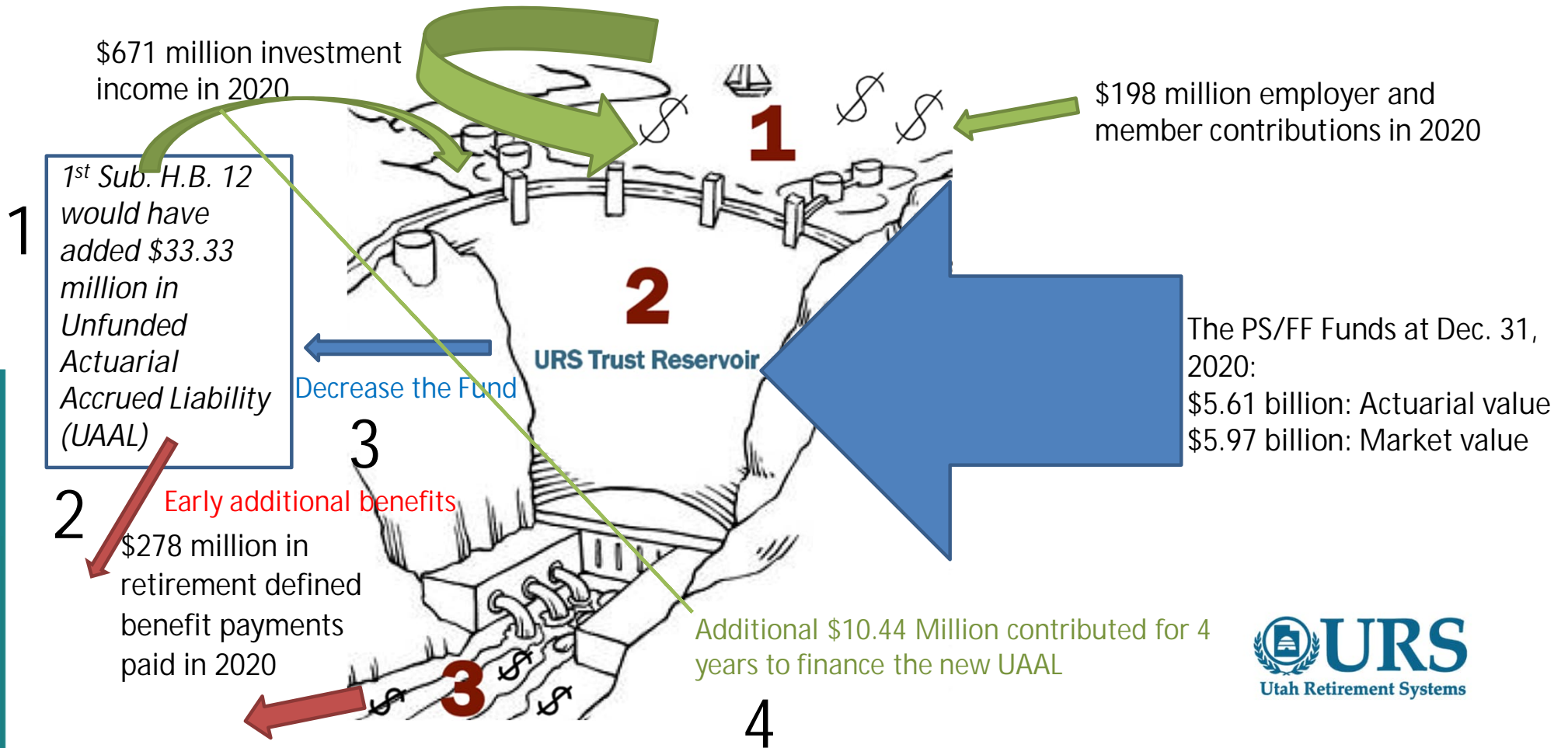


\$278 million in  
retirement defined  
benefit payments  
paid in 2020

The PS/FF Funds at Dec. 31,  
2020:  
\$5.61 billion: Actuarial value  
\$5.97 billion: Market value

T1 PS/FF Information as of 12/31/2020

# T1 PS/FF DB Trust "Reservoir" Analyzed



# Return to Work Change Cost Comparison

T1 PS & FF Systems:

Actuarial Accrued Liability = \$6,082,681,000

If passed 2022 1<sup>st</sup> Sub. H.B. 12 would increase the Unfunded Actuarial Accrued Liability (UAAL) by \$33,330,000

New total liability = \$6,116,011,000 (increase of 0.54%)

If the total liability is looked at as one gallon, the increase in system liability is about 4 U.S. teaspoons (or 1 tablespoon and 1 teaspoon)



# Next Steps

- » Legislative study items about retirement benefits for the Retirement and Independent Entities Interim Committee in 2022.
- » Potential key retirement reform topics include:
  - › Working retiree return to work restriction changes
  - › Tier 2 reforms (Public Safety/Firefighter System & Public Employees' System)
  - › Other topics
- » Open bill files for RIE Committee
  - › URS annual administrative bill; Retirement reform bill(s)

# Next Steps (Continued)

- » URS is scheduling meetings with retirement stakeholders to discuss benefits, potential changes, and costs. Prioritized items can be reported to the RIE Chairs and Committee.
- » Draft legislation can be prepared by staff (URS can assist)
- » With sufficient lead time, URS' consulting actuary can prepare cost analysis for review by the RIE Committee (the consulting actuary can also participate in a future RIE Committee meeting).





# Careful Retirement Changes

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Retirement benefit change proposals should carefully be reviewed and evaluated for impacts and costs by the stakeholders prior to legislative action.

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Consider reviewing, updating, and applying the “UTAH PENSION SYSTEM PRINCIPLES” revised and officially adopted by the Retirement Interim Committee, November 1995.

# Questions?

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

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