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OVERVIEW OF RETIREMENT BENEFITS FOR PUBLIC EMPLOYEES IN UTAH

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Eight Participant Systems within URS

Tier 1 (Before July 1, 2011)

- Public Employees Contributory
- Public Employees Noncontributory
- Governors and Legislators
- Public Safety
- Firefighters
- Judges

Tier 2 (July 1, 2011 and After)

- New Public Employees Tier 2 Contributory (includes Governors and Legislators)
- New Public Safety and Firefighters Tier 2 Contributory



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.)



Legislative Audits Found Systemic Issues, Leading to Creation of Tier 2



2006 Audit

- Statute allowed employees to retire and return to work with full retirement benefits *immediately* if the retiree:
 - was rehired by a different employer; or
 - rehired part-time with the same employer.
- Employees in some departments retired as soon as they were eligible and returned to work with the same employer, often within a week of retirement.

Legislative Audits Found Systemic Issues, Leading to Creation of Tier 2

2009 Audits

- Employers were required to contribute to a rehired retiree's 401(k), costing **\$75.6 million** from 1995-2008.
- Part-time employees went full-time at the end of their careers to inflate benefits.
 - Part-time employees accrued service credit at the same rate as full-time employees
- Increased cost of rehired retirees from 2000-2008 = **\$401.3 million**

Year*	Total Retirements	Total Rehires**	Rehires as a Percent of Retirements
1995	1,626	125	8%
1996	1,670	149	9%
1997	1,681	152	9%
1998	1,763	185	10%
1999	2,020	226	11%
2000	2,021	209	10%
2001	2,012	268	13%
2002	2,059	240	12%
2003	2,161	297	14%
2004	2,185	314	14%
2005	2,712	372	14%
2006	3,177	627	20%
2007	2,584	618	24%
2008	2,474	529	21%
Total	30,145	4,311	14%
Change from '95 to '08	52%	323%	
Annual	3.3%	11.7%	

H.B. 107 (1995) only allowed rehires to another agency (green shading).

H.B.272 (2000) allowed rehires to the same agency (brown shading).



2010 Utah Retirement Reform



Creation of Tier 2: Reduced retirement benefits for public employees initially hired on or after July 1, 2011



Stricter post-retirement reemployment requirements



Use of savings to pay unfunded liability for the Tier 1 retirement systems

July 1, 2011



Creation of Tier 2

6 Tier 1 participant systems → 2 Tier 2 participant systems

Employer contribution cap

Choice of benefit

Changes to defined benefit



Tier 2 Contribution Cap

Contribution rate

- Percentage of an employee's salary paid to URS on behalf of an employee (an employer portion and possibly an employee portion)
- Calculated to ensure retirement system maintained on a financially and actuarially sound basis

Employer contribution rate caps

- Tier 2 Public Employees – 10%
- Tier 2 Public Safety and Firefighter
 - 12% from July 1, 2011, through June 30, 2020
 - 14% beginning July 1, 2020



Tier 2 Choice of Benefit

Defined Contribution

Employer contributes the contribution cap into employee's 401(k)

Employee may also contribute to 401(k)

Hybrid

Employer contributes contribution cap into a pension benefit

Employer deposits difference between contribution cap and contribution rate, if any, into employee's 401(k)

Employee may contribute to 401(k)



Tier 2 Choice of Benefit

State Public Employee Example

	Public Employees	Public Safety & Firefighters
Defined Contribution	10%	14%
Hybrid	10%	14%

Defined Contribution:

All 10% goes to the employee's 401(k)

Hybrid:

9.82% goes towards employee's pension, remaining 0.18% goes to employee's 401(k)

Source: Utah Retirement Systems Contribution Rates
July 1, 2022-June 30, 2023



Changes to Defined Benefit: Three Components

Years of Service Required to Retire

Final Average Salary

Multiplier



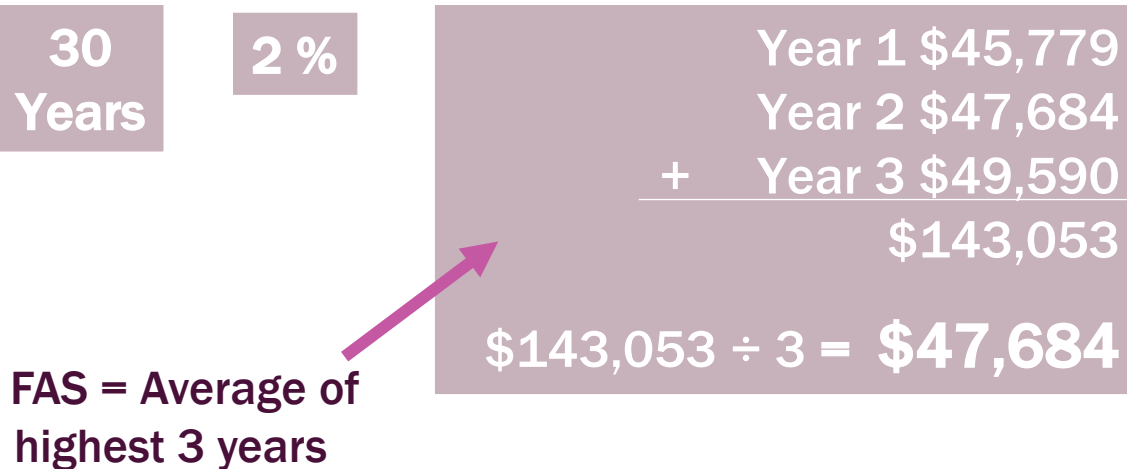
Changes to Defined Benefit: Tier 1 Compared to Tier 2

	Public Employees Tier 1	Public Employees Tier 2	Public Safety and Firefighters Tier 1	Public Safety and Firefighters Tier 2
Years of Service	30 years to retire at any age	35 years to retire at any age	20 years to retire at any age	25 years to retire at any age
Final Average Salary	Highest 3 years	Highest 5 years	Highest 3 years	Highest 5 years
Multiplier	2%	1.5%	2.5% for first 20 years, 2% for years above 20	1.5% for years 2011-2020 2% for years 2020 and beyond



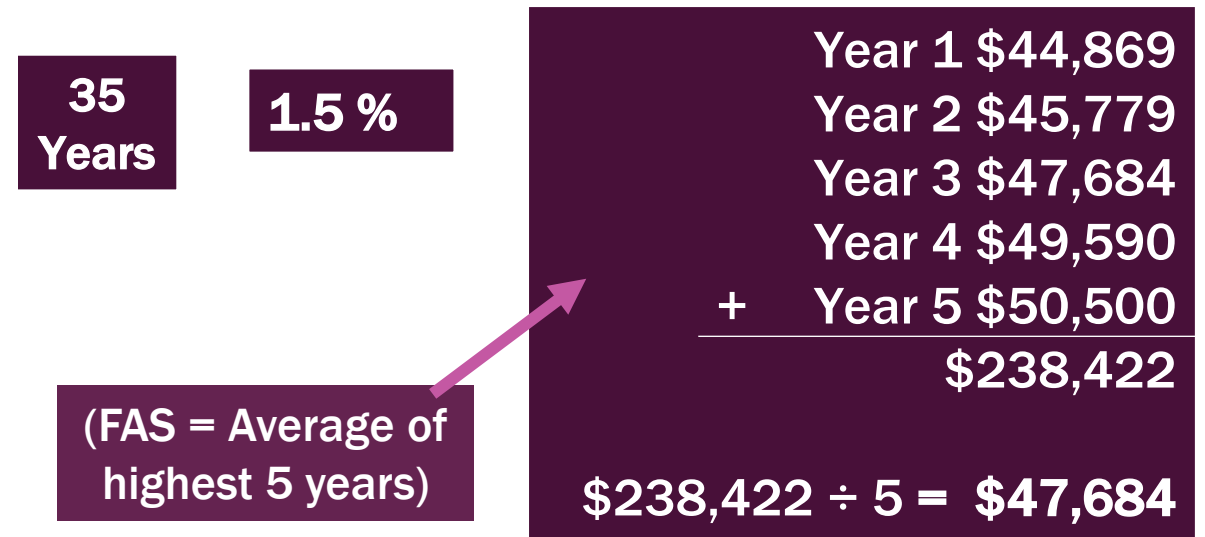
Tier 1 Allowance vs. Tier 2 Allowance

Years of Service x 2% X FAS



$$30 \times 2\% \times \$47,684 = \$28,611$$

Years of Service X 1.5% X FAS



$$35 \times 1.5\% \times \$47,684 = \$25,034$$



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Creation of Tier 2: Reduced retirement benefits for public employees initially hired on or after July 1, 2011



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Use of savings to pay unfunded liability for the Tier 1 retirement systems



Changes that Apply to Tier 1 and Tier 2: Post-Retirement Reemployment Restrictions

One-year separation

In most cases, retirees must wait until one year after the date of retirement before returning to work with a participating employer.

Rehired retirees can:

- Collect a retirement allowance and a salary after the one-year separation; or
- Collect a salary and earn additional years of service credit



Changes that Apply to Tier 1 and Tier 2: Post-Retirement Reemployment Restrictions



Proposals over the past few years sought to reduce the separation time for certain groups



Federal regulations require a bona fide separation – legitimate break in service with no prearranged future employment

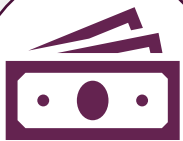
2010 Utah Retirement Reform



Creation of Tier 2: Reduced retirement benefits for public employees initially hired on or after July 1, 2011



Stricter post-retirement reemployment requirements



Use of savings to pay unfunded liability for the Tier 1 retirement systems

Paying Down the Unfunded Accrued Actuarial Liability

Tier 2 State Public Safety	
Hybrid defined contribution rate	14%
Amortization rate	18.46%
Death benefit	.08%
Employee contribution rate	2.59%
TOTAL	35.13%

- In addition to the contribution rate, for each employee, an employer pays the amortization rate
- 2023 State Amortization Rate:
 - 9.94% for public employees
 - 18.46% for public safety employees

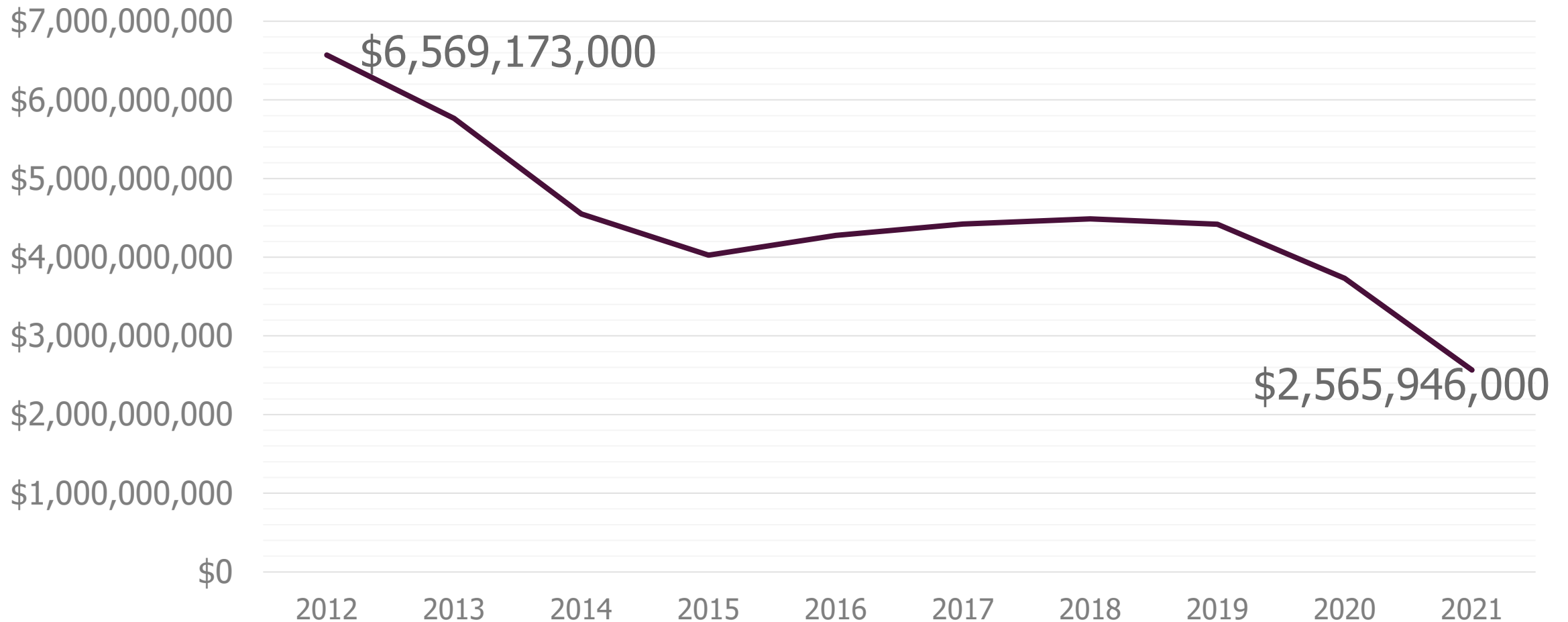


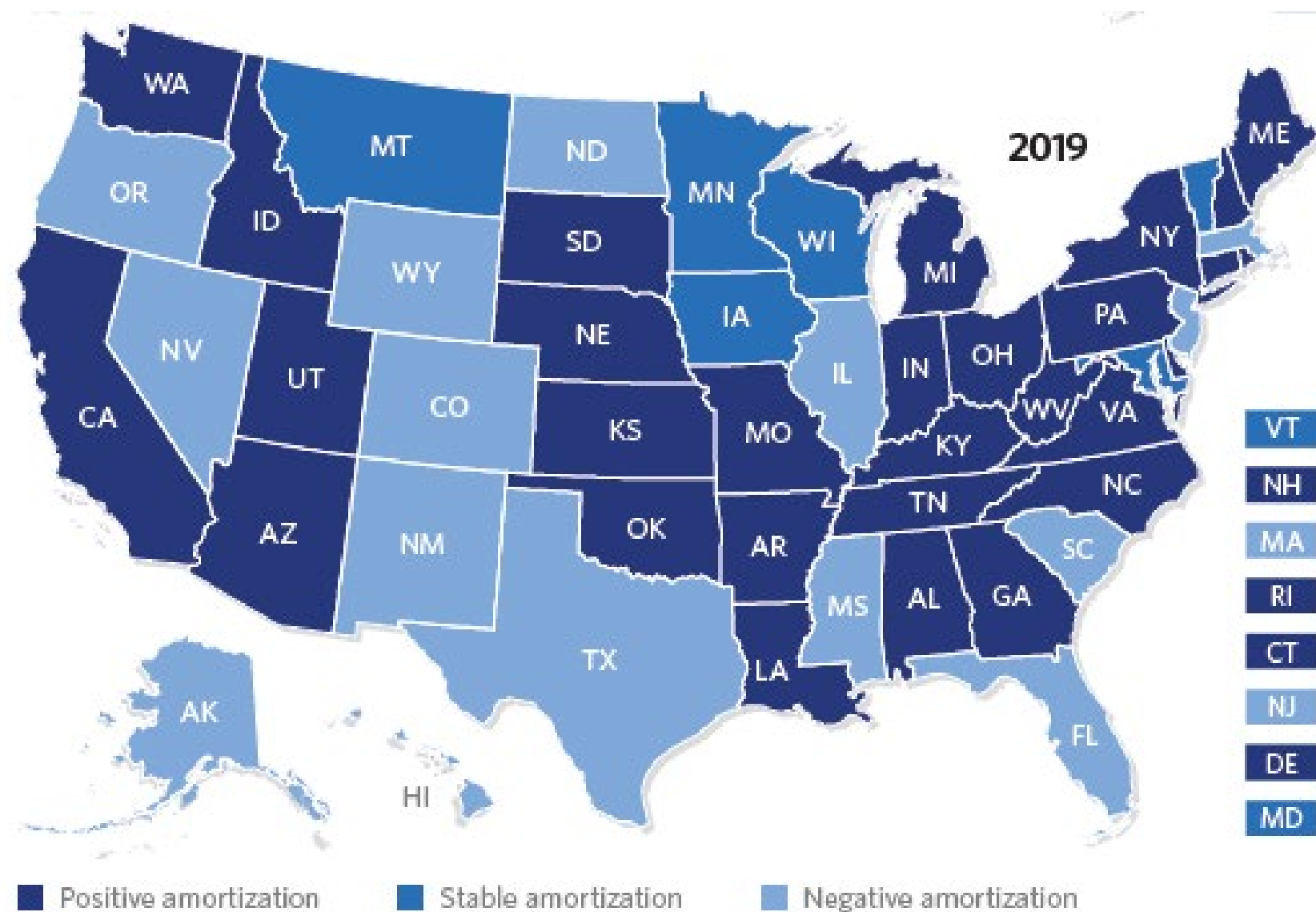
Employer Pick-up

- Tier 2 Public Safety and Firefighters allows employers to “pick-up” the employee’s contribution rate
- State has opted to pick-up the employee’s contribution rate for state public safety and firefighter employees
- Tier 2 Public Employees does NOT allow employer pick-ups



Paying Down the Unfunded Accrued Actuarial Liability





Sources: Annual financial reports, actuarial reports and valuations, other public documents, or reports by plan officials

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More questions? Call the LRGC Retirement Team

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