



Overview of Utah Retirement Systems (URS)

Presentation to the Retirement and Independent Entities Interim Committee

June 12, 2023



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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.



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.



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



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.



Tier 2 Legislative Reform

- Different benefit structure called Tier 2
 - For public employees hired on or after July 1, 2011
 - Choice between a hybrid or defined contribution (DC) only plan benefit.
- Employer contribution rates are capped by statute:
 - 10% for public employees; and
 - 14% for public safety and firefighter employees.



Funded Ratio

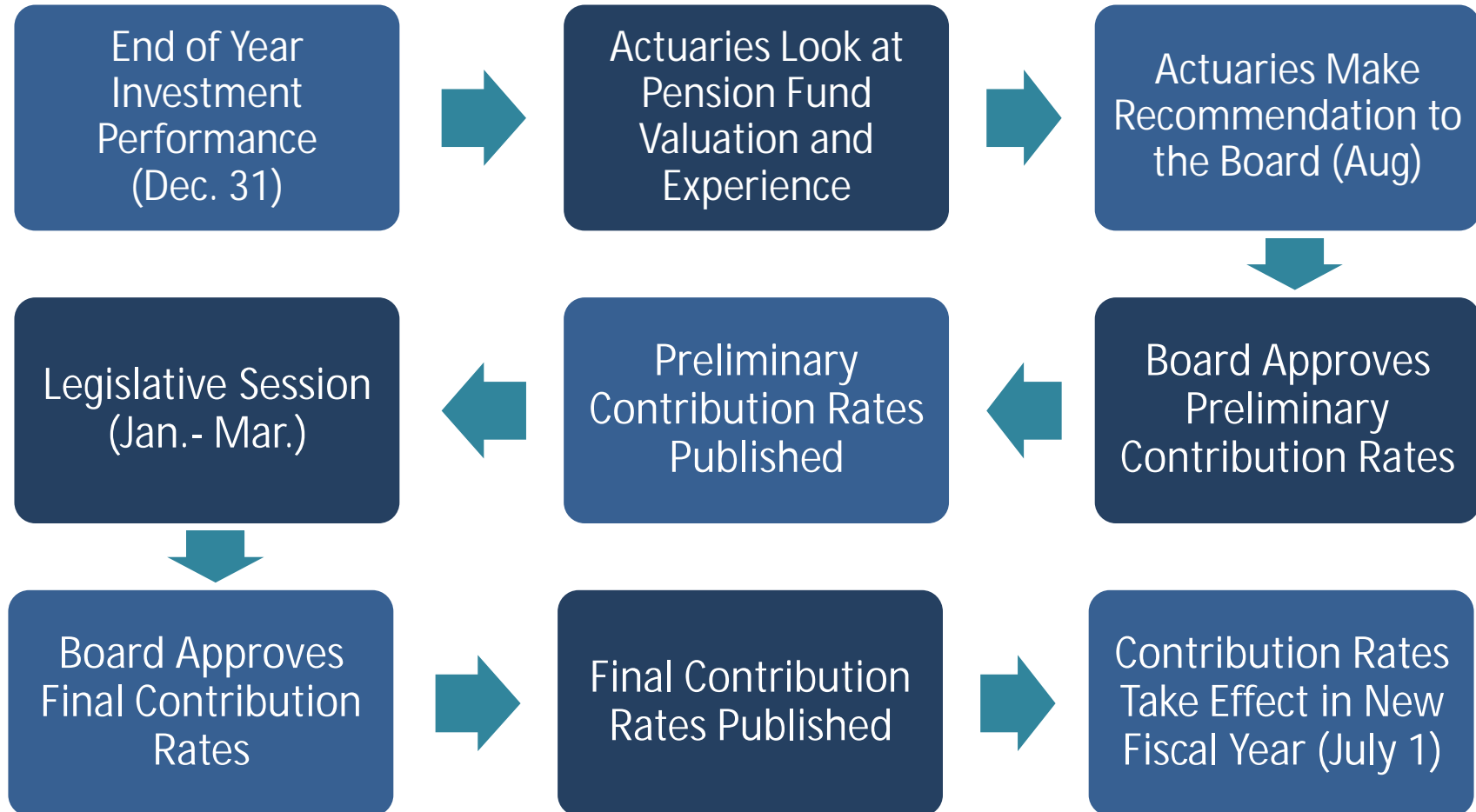
- » Many focus on the funded ratio as a standard measure of a plan's financial status
- » Expressed as the ratio of the value of assets to the actuarial accrued liability at a specific point in time
- » Since the calculation is based on a plan's actuarial assumptions, we urge caution when making comparisons between different DB plans
- » While important information, funded ratios are often misunderstood and misused



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
- 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)
- The process is on an 18-month cycle that reoccurs each year

Contribution Rate Cycle





Contribution Rates: Process

Other Considerations

- The consulting actuary uses a smoothed value of plan assets instead of a market value for funding purposes
- Utah Code Subsection 49-11-301(5)(a) states the Board can maintain certified rates above the actuarial calculated rates at the prior year's levels until the actuarial funded ratio of the systems reaches 110%
 - Unfunded liabilities paid off sooner
 - Reduces rate volatility — benefits employers' budgeting

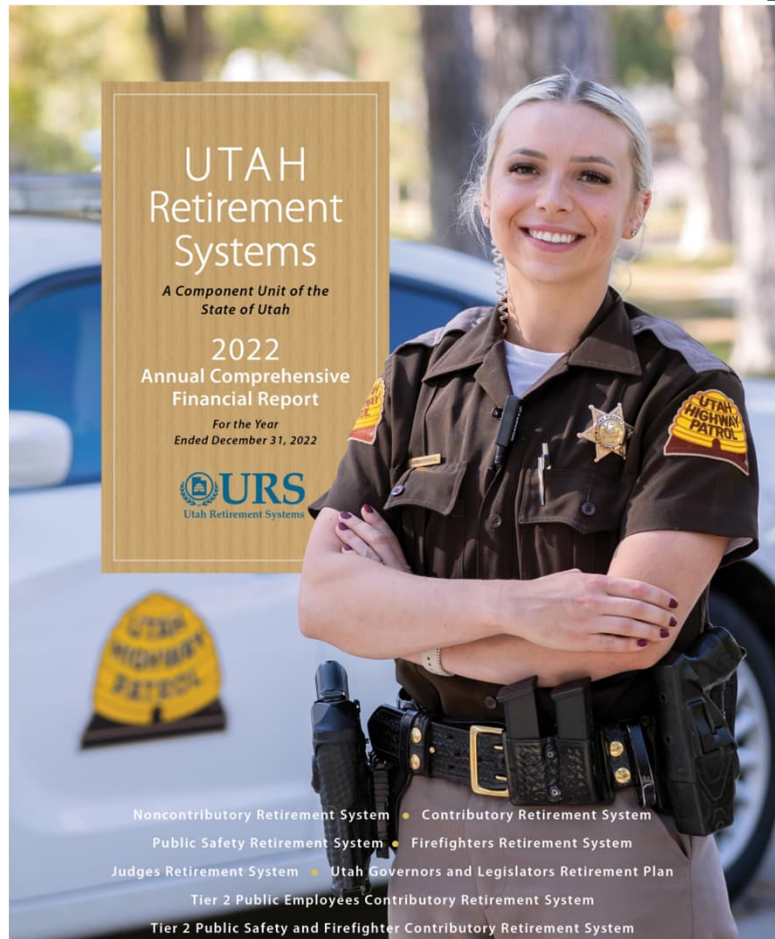


Contribution Rate Management

- » The State Retirement Board and consulting actuary designed a prudent method for managing the reduction of the contribution rate in accordance with the 110% funding rule adopted by the legislature.
- » Smooths rate decreases to mitigate impact of large decreases in the future and possible contribution rate increases.
- » Factors include:

Funded Ratio Actuary Basis	Projected Years to 100% Funding	Contribution Rate Change from Prior Year Required Actuary Rate	Contribution Rate Margin Difference between Board certified rate and actuarially determined rate
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Review of Annual Comprehensive Financial Report



- » System Highlights
- » Membership Demographics
- » Key Financial Highlights
- » Retirees and Average Benefit Payments
- » Returns and Performance
- » DC Contributions and Benefits
- » Available online:

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



DB Program Key Stats at Dec. 31, 2022



\$42.1 Billion
(net position)



-5.0%
(Rate of Return)



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



493
Active
Employers



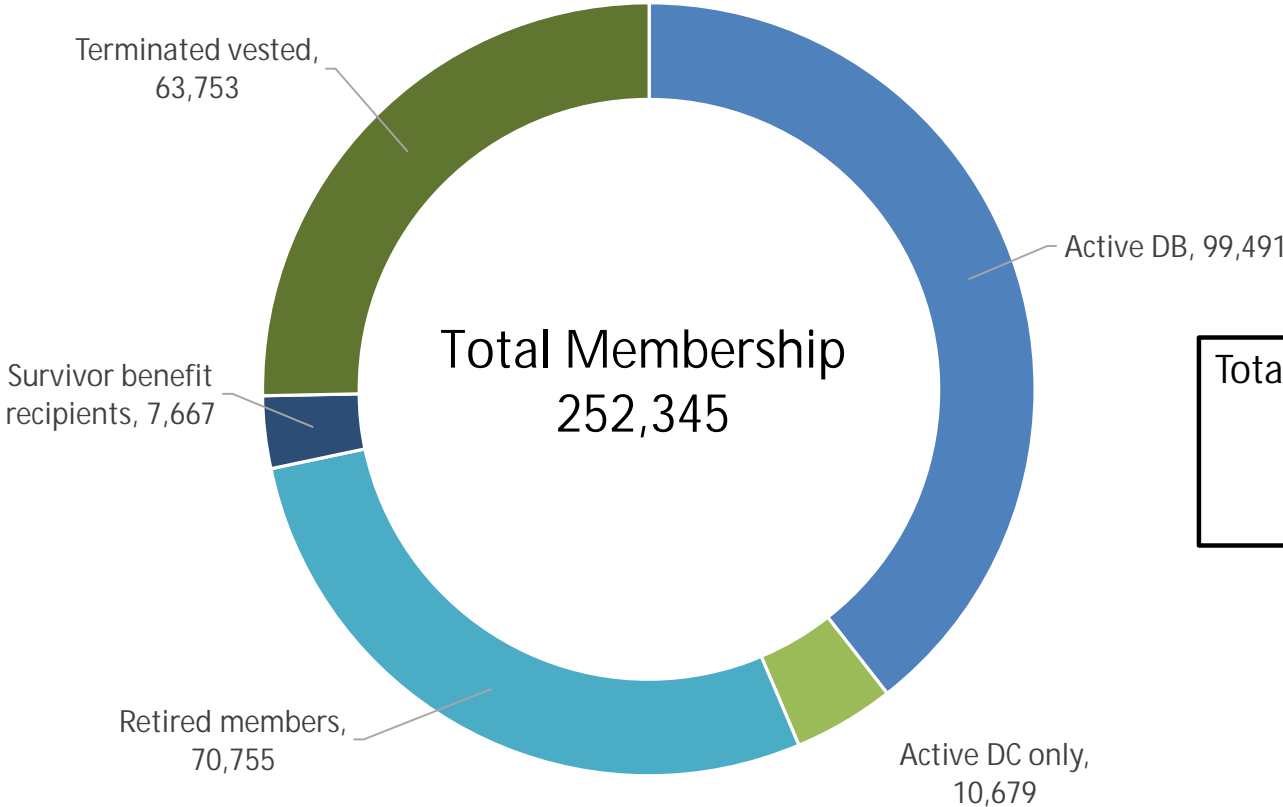
78+ thousand
(Retirees and Beneficiaries)



96% Funded
(Actuarial smoothed value
of assets)

The URS diversified investment portfolio allocation to private market investments mitigated losses experienced in both the public equities and fixed income assets in 2022.

Members by the Numbers at Dec. 31, 2022



Total membership increased 2.6%

- Active +2.2%
- Retirees +3.4%
- Term vested +2.6%

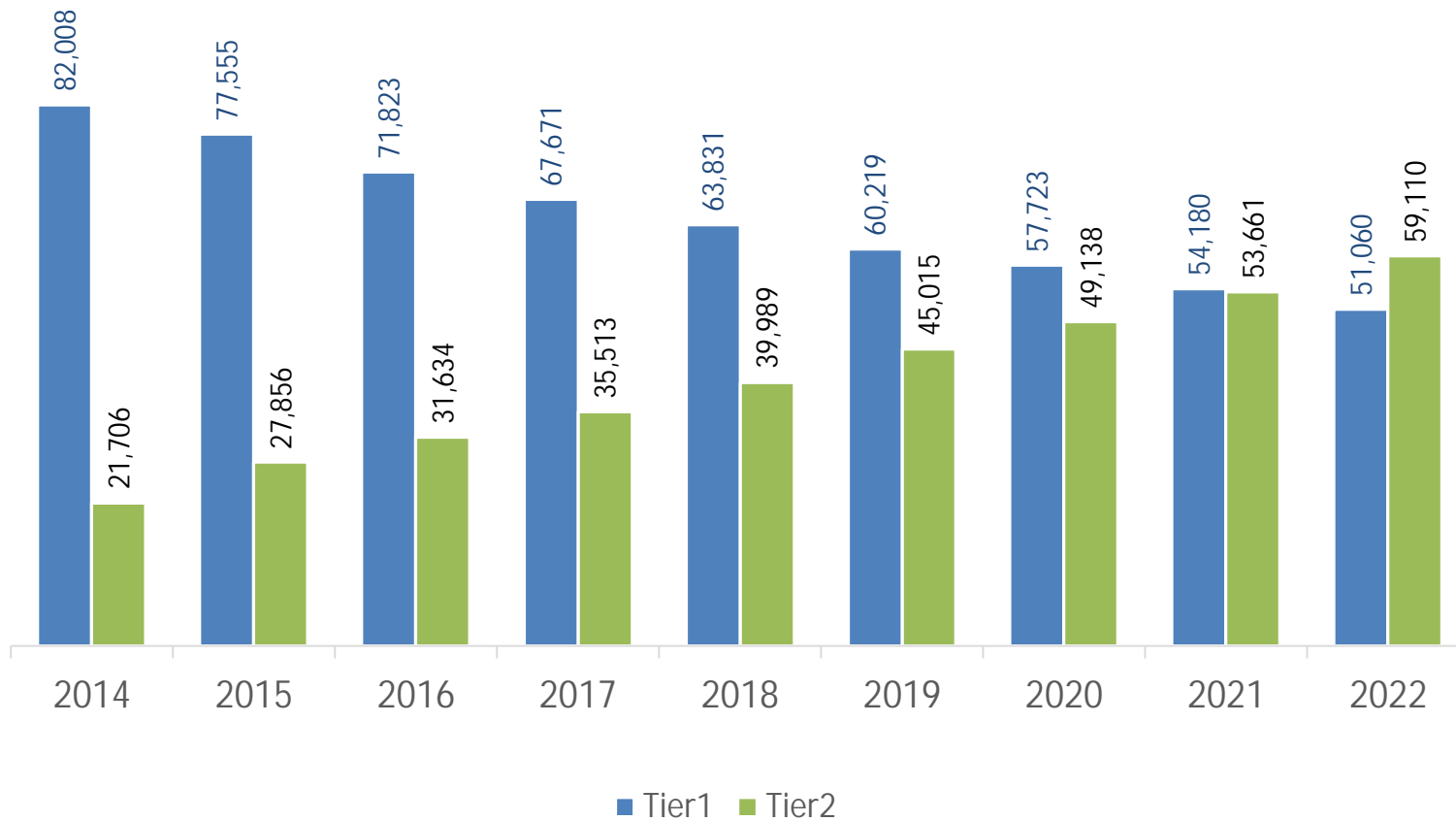


Tier 1 and Tier 2 Membership (at Dec. 31, 2022)

	Tier 1 -Noncontributory	Tier 2 Public Employee (Hybrid)
Average age	51.5	38.6
Average years of service	18.6	4.1
Average salary	\$73,277	\$53,881

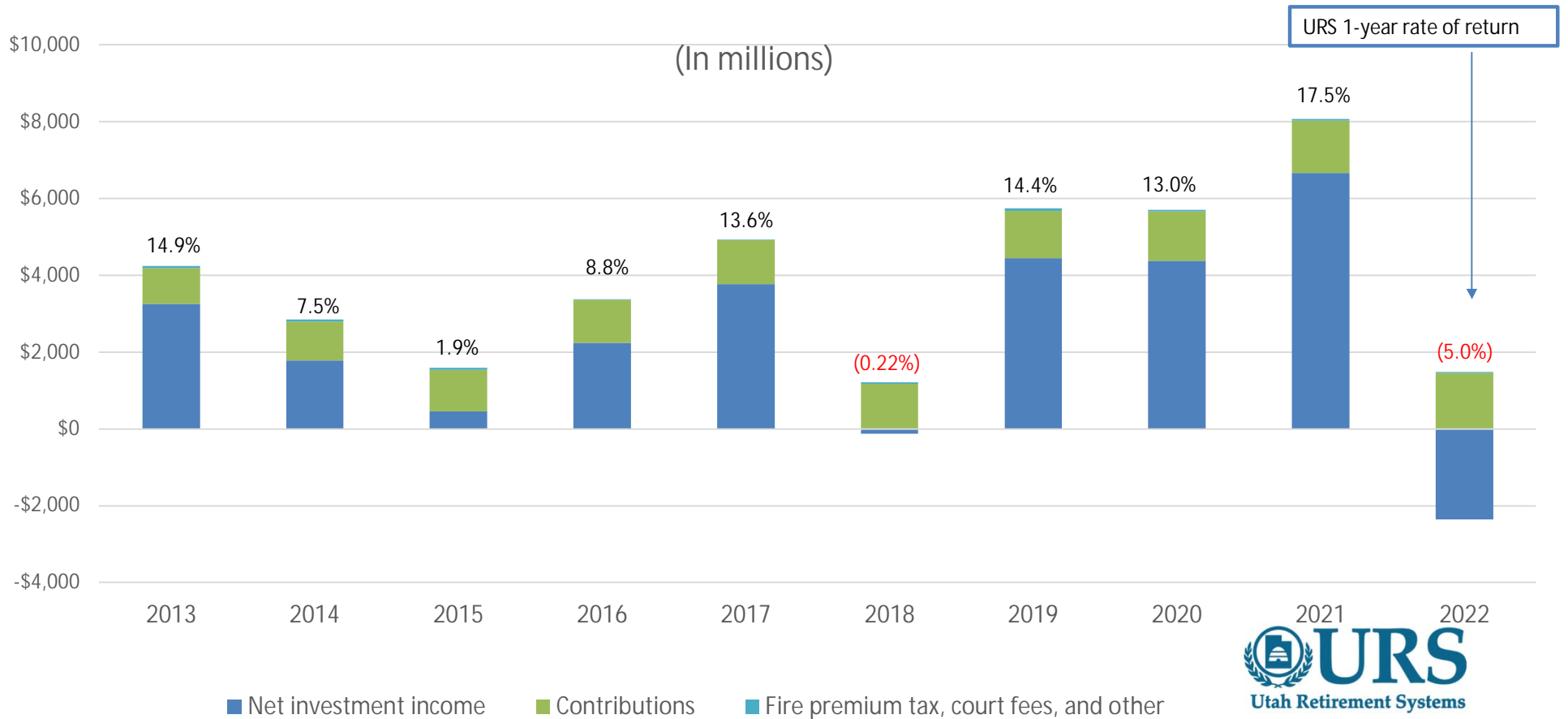
	Tier 1 Public Safety	Tier 2 Public Safety and Firefighter (Hybrid)
Average age	45.8	31.8
Average years of service	18.9	4.1
Average salary	\$85,018	\$60,344

Tier 1 and Tier 2 Active Membership (at Dec. 31)

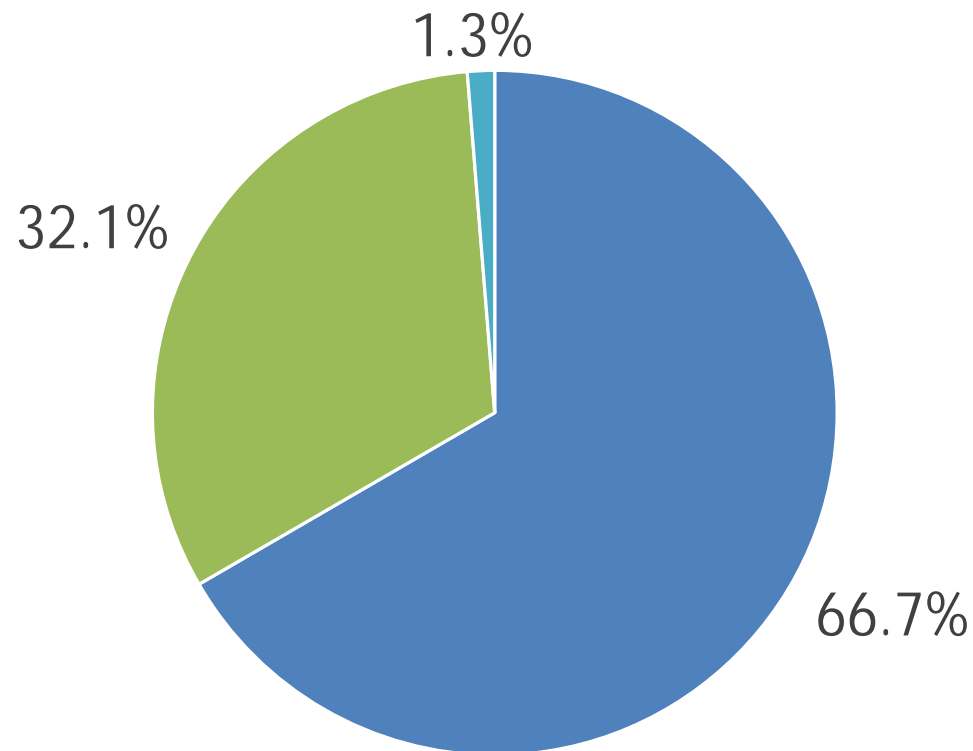


Tier 2 total active membership is nearly 54% of total active members

Additions by Source – DB Plan (For Years Ended Dec. 31)



Additions by Source DB Plan – 10-Year Average (at Dec. 31, 2022)



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



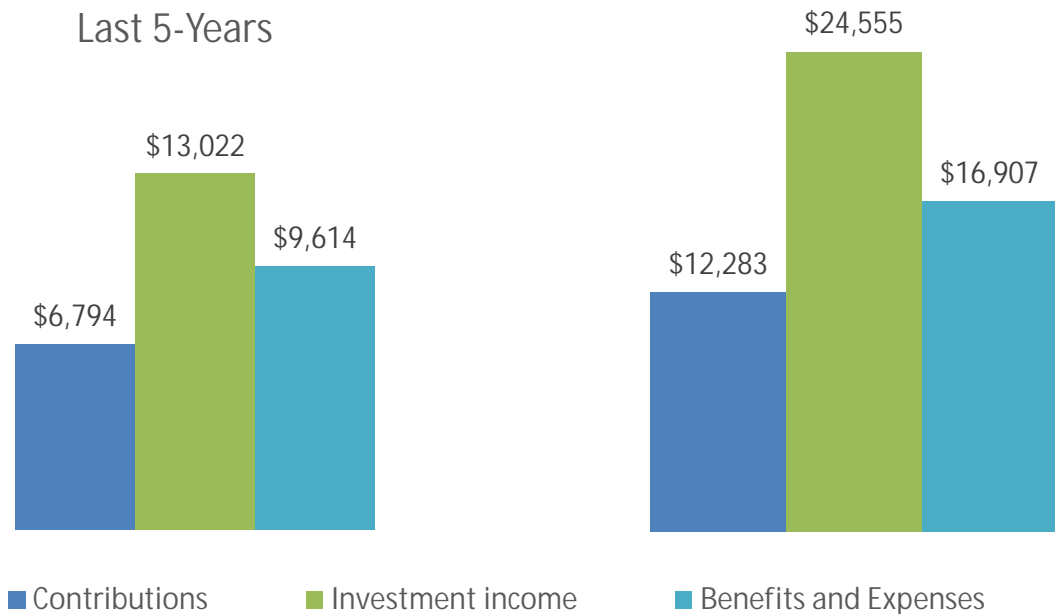
Contributions, Earnings, and Benefits DB Plan (For Years Ended Dec. 31)

(In millions)

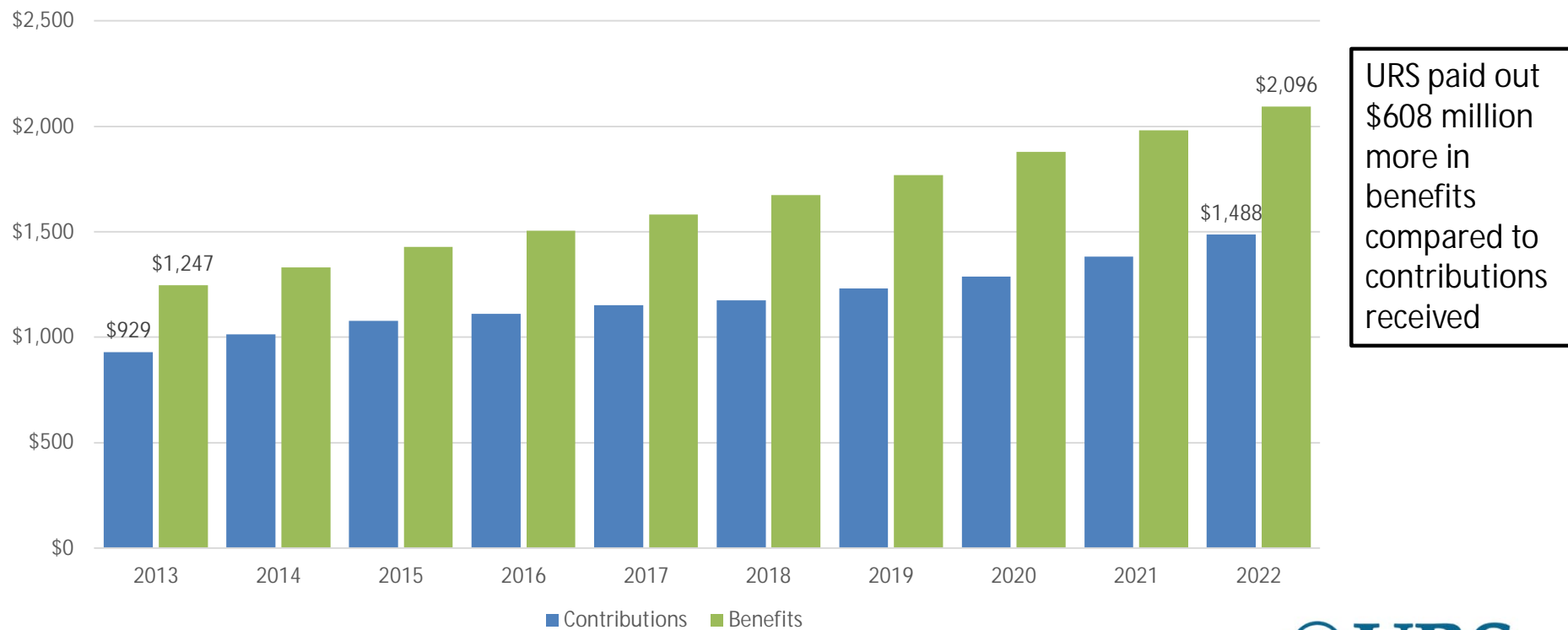
Last 10-Years

Last 5-Years

- Over last 5 years, contributions and investment earnings have exceeded benefit payments by \$10.2 billion
- Over last 10 years, contributions and investment earnings have exceeded benefits by \$20.4 billion



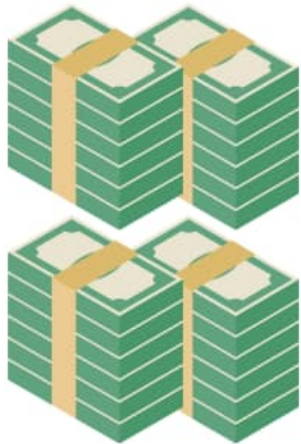
Contributions and Benefits – DB Plan (For Years Ended Dec. 31)



2022 URS Pension Payouts in Utah

\$1.9
BILLION

IN PENSION BENEFITS
PAID IN UTAH 2022



69,774



1.1%

EQUIVALENT
PORTION OF
THE STATE'S TOTAL
PERSONAL INCOME



67%

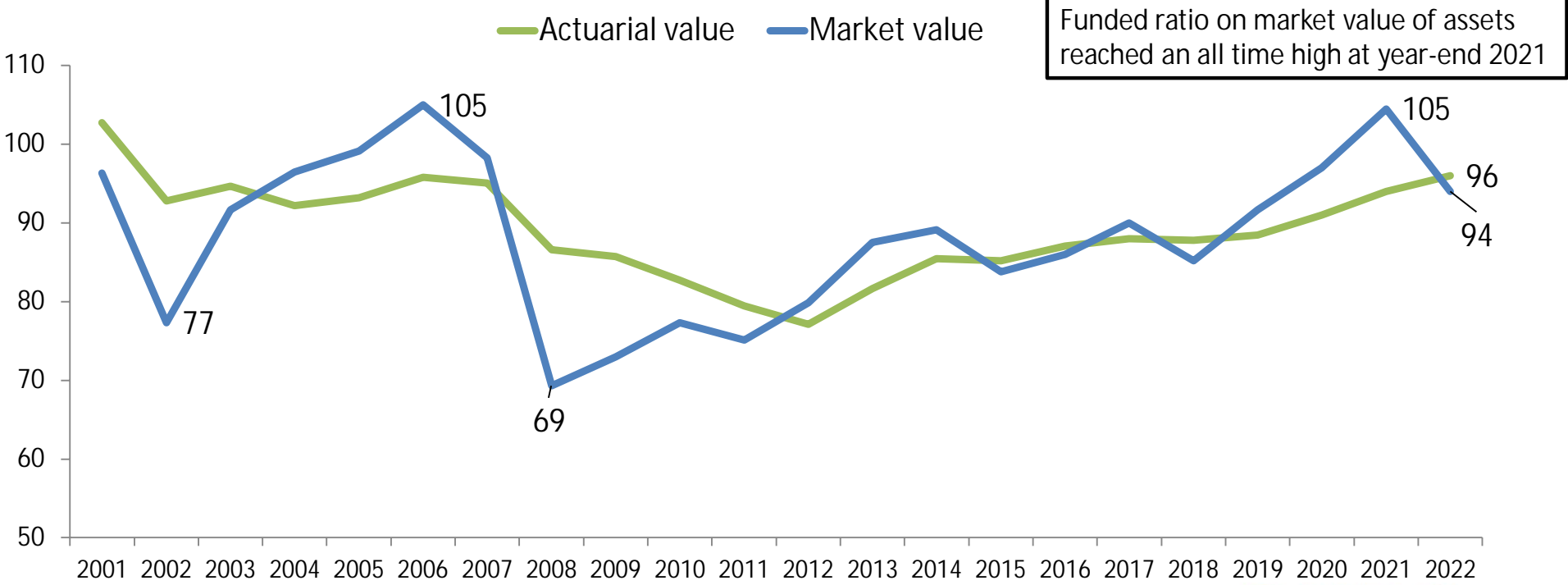
AVERAGE PORTION
OF BENEFITS
PAID THROUGH
INVESTMENT
RETURNS OVER
THE PAST 10 YEARS



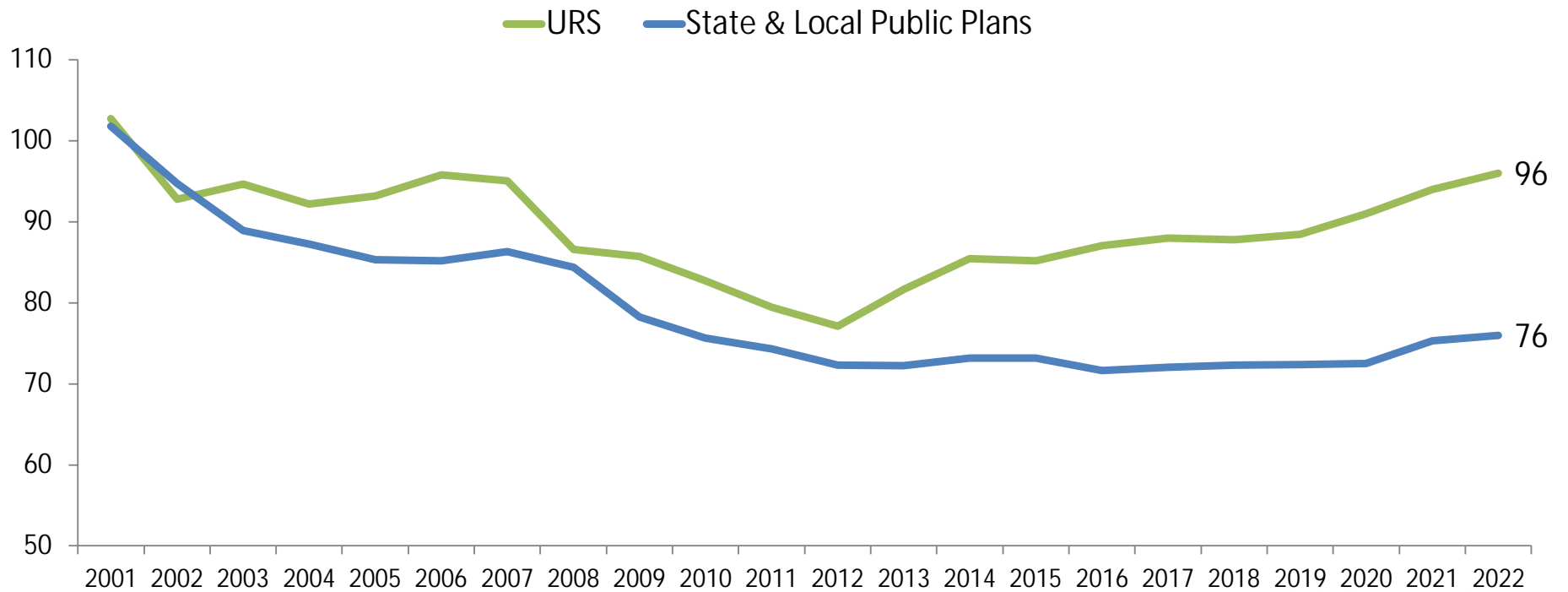
DB Net Pension Liability (at Dec. 31, 2022)

- » The collective net pension liability/asset (NPL) went from a \$2.2 billion asset in 2021 to a \$2.7 billion liability in 2022. (\$4.9 billion change)
- » The decrease was due to investment earnings of **-5.0%** compared to an assumed rate of 6.85%
- » Plan has deferred losses of \$714 million that will be recognized systematically over the next five years for funding purposes
 - › In 2021, plan had \$4.8 billion of deferred gains

DB Plan Funded Ratio (at Dec. 31)



Actuarial Funded Ratio Smoothed (at Dec. 31, 2022)

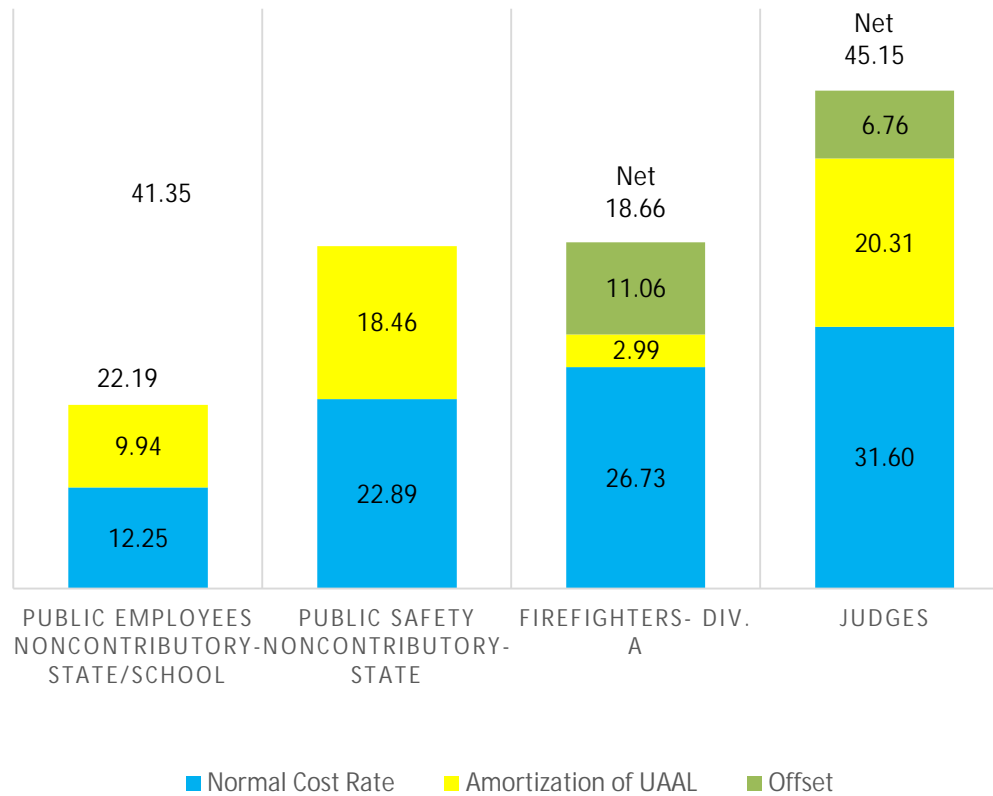


Aggregate funded ratio of state and local public plans – *Public Plans Database*
National data averages are weighted by plan size (April 2023)



State Tier 1 Contribution Rates

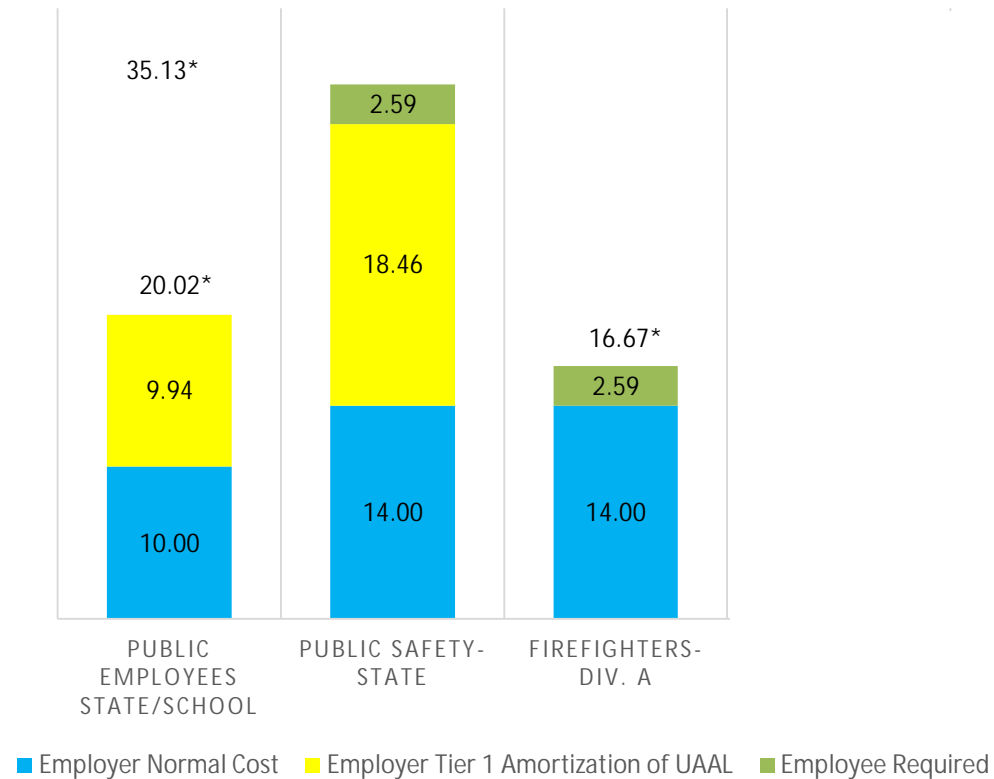
FY 2023-24 as a Percentage of Salary and Wages



Insurance Premium (Firefighters)
Court Fess (Judges)

State Tier 2 Contribution Rates

FY 2023-24 as a Percentage of Salary and Wages

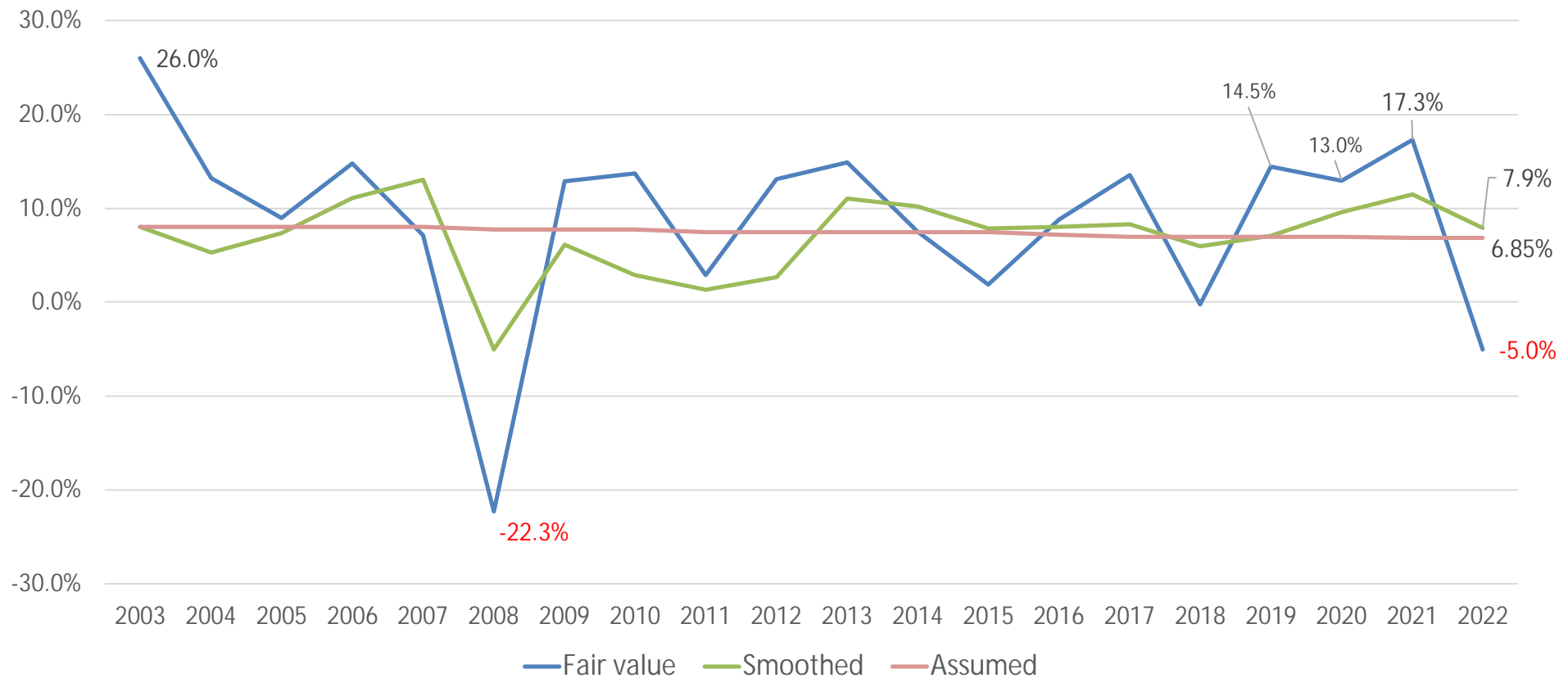


Public Employees Hybrid Plan Employer Rate 9.82% & 0.18% 401(k) Contribution

Public Safety/Firefighter Hybrid Plan Employer Rate 14.00% & No 401(k) Contribution

*These rates include a 0.08% charge for an active death benefit.

DB Total Pension Investment Returns (at Dec. 31)



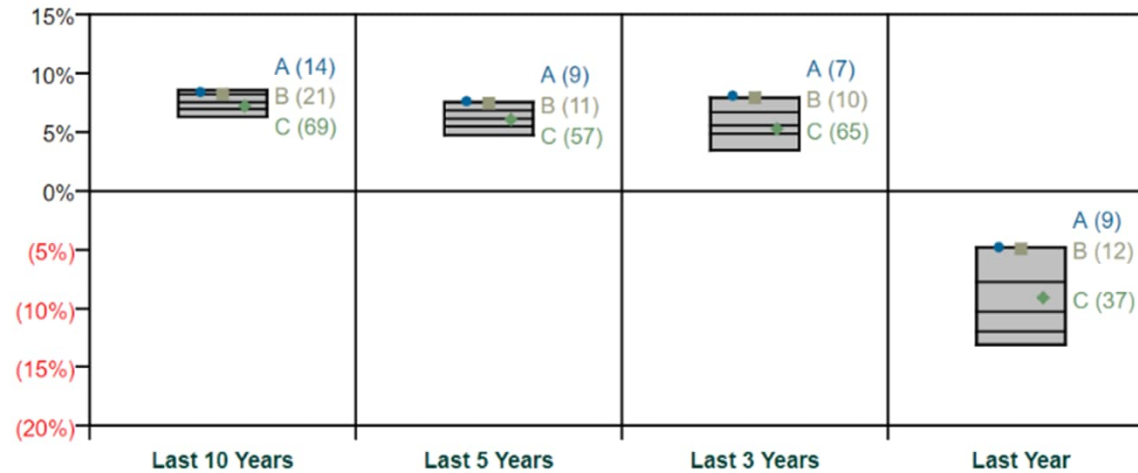
DB Investment Performance (at Dec. 31, 2022)

10-Year Returns



URS Performance Vs. Peers

Returns for Periods Ended December 31, 2022
 Group: Callan Public Fund Spons- V Lg DB (>10B)

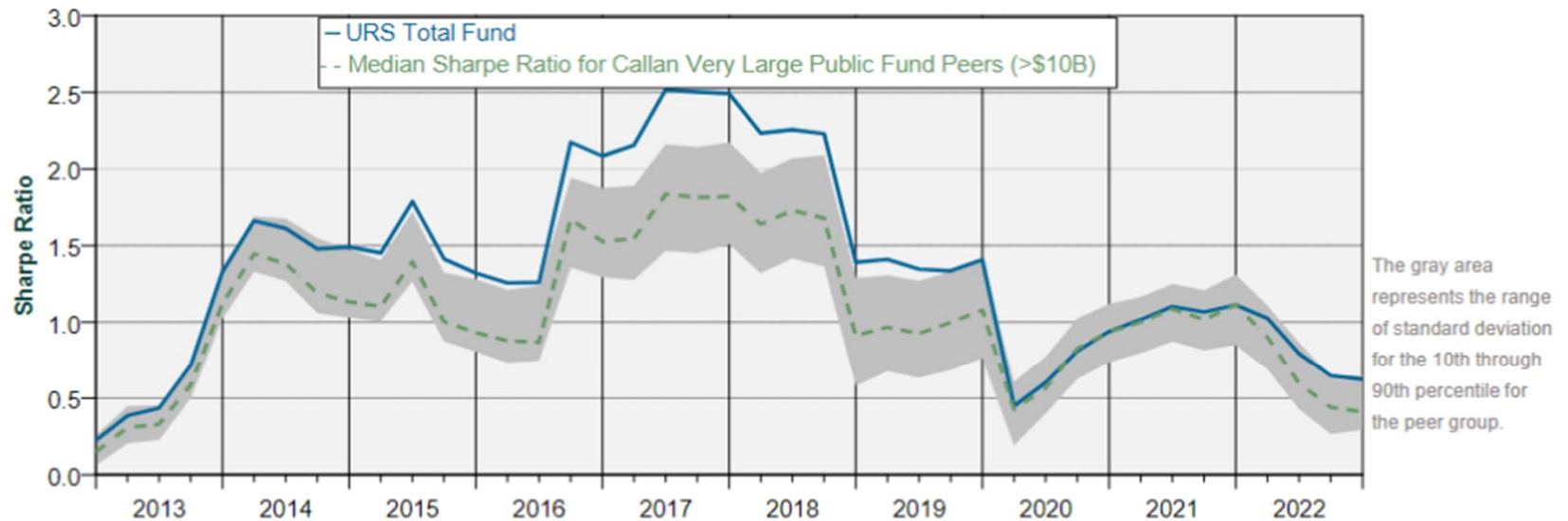


Returns for Periods
 Ended December
 31, 2022
 Group: Callan Public
 Fund Sponsors –
 Very Large DB
 (>10B)

	Last 10 Years	Last 5 Years	Last 3 Years	Last Year
10th Percentile	8.57	7.56	7.93	(4.79)
25th Percentile	8.21	6.85	6.70	(7.71)
Median	7.54	6.15	5.57	(10.24)
75th Percentile	6.96	5.49	4.88	(11.93)
90th Percentile	6.30	4.75	3.47	(13.05)
Utah-Total Fund ● A	8.41	7.62	8.10	(4.76)
Utah-Total Fund Net ■ B	8.23	7.46	7.94	(4.91)
Utah-Total Fund Target ◆ C	7.22	6.07	5.28	(9.05)

Sharpe Ratio Analysis

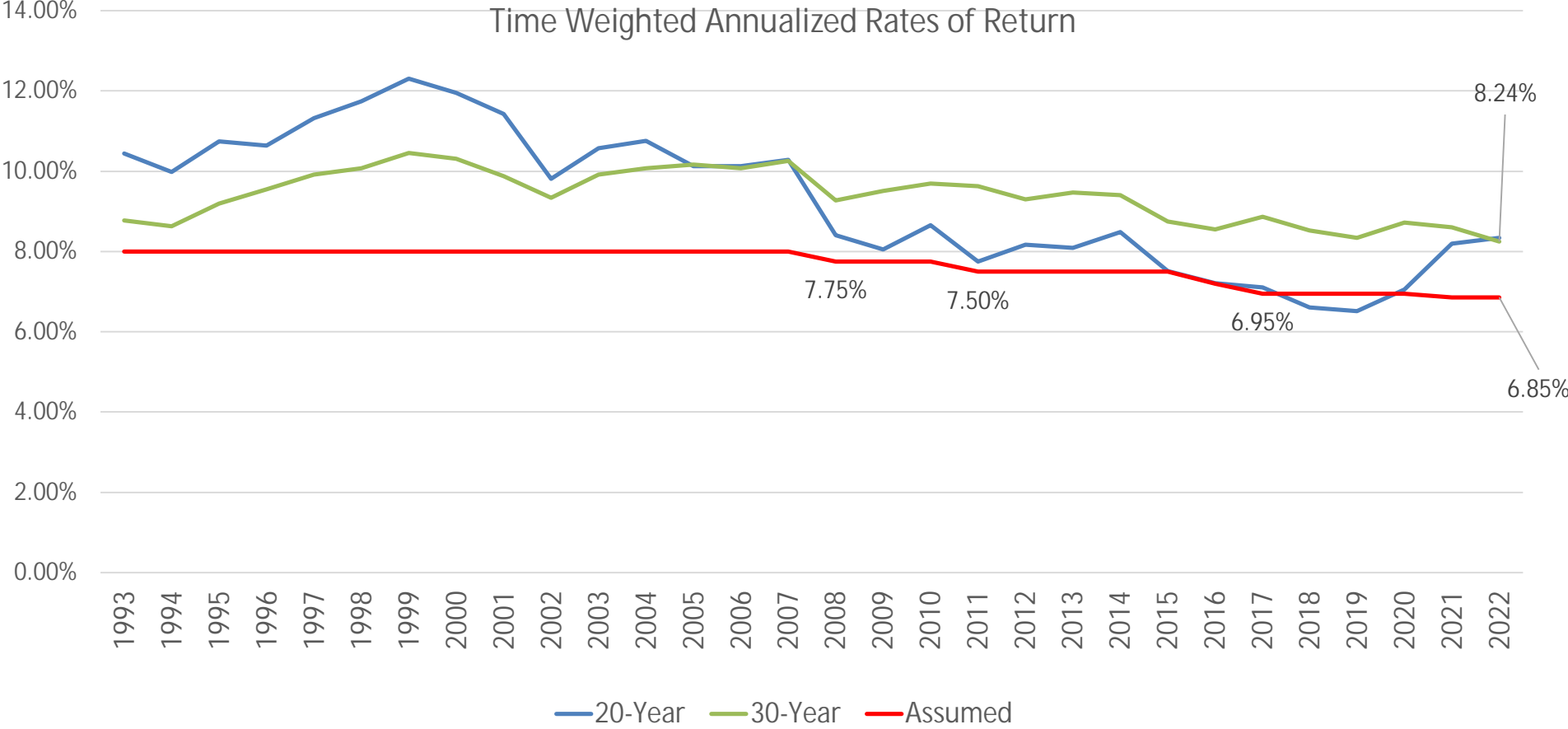
Rolling Five Year Sharpe Ratio for 10 Years Ended December 31, 2022



Rolling Five Year Period Analysis	Median	Portfolio
Average Annual Sharpe Ratio	1.08%	1.38%
% Positive Periods	100%	100%
Average Ranking	50	16

Group: Callan Public Fund Sponsors – Very Large DB (>10B)

DB Investment Total Fund Performance (at Dec. 31)



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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