

URS Report on Contribution Rates to the Executive Appropriations Committee

November 14, 2023

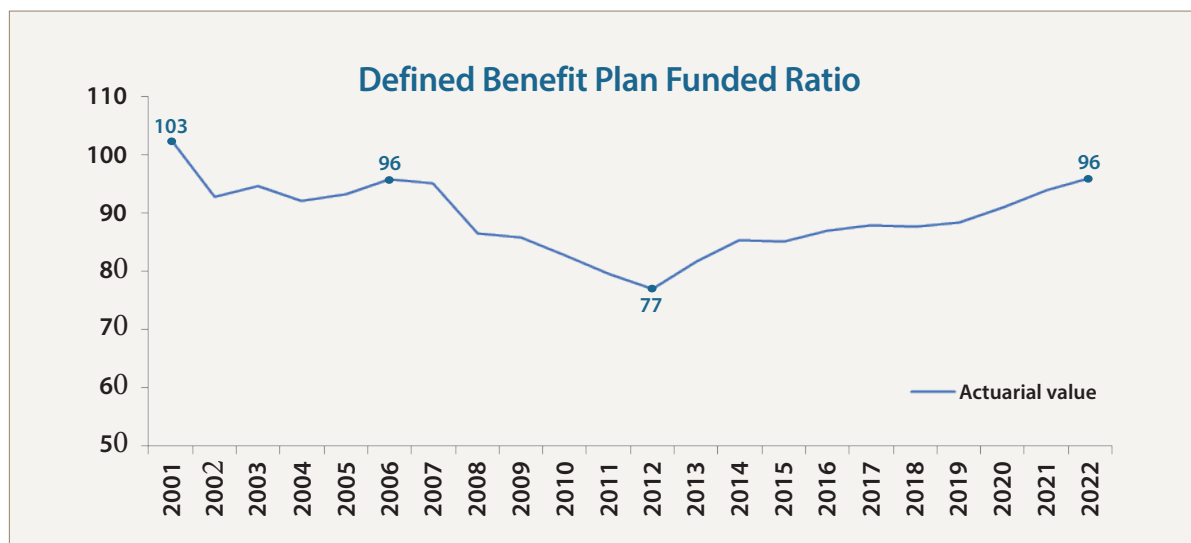
New contribution rates will bring changes for the stakeholders of the Utah Retirement Systems (URS) in 2024-25.

Many Tier 1 (those initially employed before July 1, 2011) amortization rates have decreased as part of URS' contribution rate management plan to prudently reduce rates over time and avoid future increases.

Tier 2 rates have increased. Changes for Tier 2 Public Employees will put the system in range to require employee contributions.

Tier 1 » Contribution Rate Management

As funding levels increase, the Tier 1 amortization rates (the rate that pays for the unfunded liability, largely resulting from the 2008-2009 global financial crisis) will decrease over time. As of Dec. 31, 2022, URS was 96% funded on an actuarial basis, which smooths the investment earnings over a five-year period. URS uses the actuarial value to determine contribution rates.



In an effort to create a gradual decline in these rates, the Utah State Retirement Board adopted a Contribution Rate Management Plan in 2019.

This plan calls for prudent rate reductions to avoid sudden, large drops, while preventing the need to raise rates again after they are decreased. Accordingly, the plan is only implemented when certain triggers are met. These triggers include the funded ratio, years to full funding, and other actuarial determinations.

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Due to meeting the necessary triggers, the Retirement Board approved amortization rate reductions in fiscal year 2025 for the State Tier 1 Public Employee and Tier 1 Public Safety plans. This will reduce all state rates by 0.50%, resulting in an estimated \$6.6 million savings for the State of Utah, as an example of one employer.

Tier 2 » Rate Increases

Tier 2 rates are increasing due to changes in the actuarial assumptions and experience; the main change this year is from higher than assumed salary growth. Experience studies are conducted every three years to compare recent actual economic and demographic experience against the actuarial assumptions previously adopted by the Retirement Board.

| Average Salary Increases for Members | | | | | | |
|--------------------------------------|------|-------|----------|-------|---------------|--------------|
| | Year | State | Teachers | Local | Public Safety | Firefighters |
| Last Experience Study | 2007 | 7.8% | 9.8% | 7.1% | 7.7% | 6.8% |
| | 2008 | 6.9% | 7.4% | 6.8% | 7.5% | 6.4% |
| | 2009 | 2.9% | 3.9% | 3.4% | 4.0% | 4.0% |
| | 2010 | 1.4% | 1.2% | 1.4% | 0.8% | 2.1% |
| | 2011 | 2.3% | 3.2% | 2.7% | 2.3% | 2.5% |
| | 2012 | 2.7% | 2.5% | 3.0% | 2.6% | 2.7% |
| | 2013 | 3.0% | 3.4% | 3.9% | 3.4% | 3.4% |
| | 2014 | 3.4% | 3.7% | 3.7% | 3.9% | 3.7% |
| | 2015 | 4.6% | 4.5% | 4.6% | 4.6% | 4.7% |
| | 2016 | 4.8% | 6.0% | 4.6% | 5.4% | 5.1% |
| Current Experience Study | 2017 | 4.6% | 6.7% | 4.9% | 5.7% | 5.4% |
| | 2018 | 5.2% | 7.8% | 5.4% | 6.1% | 5.1% |
| | 2019 | 5.3% | 7.5% | 5.8% | 7.1% | 6.1% |
| | 2020 | 4.2% | 7.7% | 4.9% | 5.2% | 5.5% |
| | 2021 | 6.0% | 8.6% | 6.0% | 7.7% | 6.1% |
| | 2022 | 7.9% | 7.0% | 9.9% | 16.4% | 9.4% |
| | 2023 | 7.9% | 7.0% | 9.9% | 16.4% | 9.4% |
| Last 10 | | 4.9% | 6.3% | 5.4% | 6.6% | 5.5% |
| Last Exp Study | | 3.7% | 4.7% | 4.0% | 4.2% | 4.1% |

In 2023, the average salary increase was as much as 1.2% to 2.4% higher than in the 2020 prior experience study.

Because of this experience, Tier 2 Public Employee Hybrid System contribution rates will increase to 10.7%, in range to require member contributions in FY 2025, equal to 0.70% of pay, which exceeds the statutory 10% cap on employer contributions. By current law, employers may not “pick up” or make this contribution on behalf of these members. Also, the Tier 2 Public Safety and Firefighter (PS/FF) Hybrid System contribution rates will increase from 16.59% to 18.73% (an additional 2.14%), requiring a 4.73% employee contribution. This amount may be “picked-up” by the employer, which was authorized with the 2020 benefits enhancements for the Tier 2 PS/FF System. The total increase in cost to the State of Utah is approximately \$5.7 million, as an example of one employer.

» **Learn More About Contribution Rates: www.urs.org/rates**

State of Utah 2024 / 2025 Renewal

(As of 11/3/2023)

| | |
|-----------------------------------|------------------------------|
| Medical/Rx Renewal (State) | 7.2% (\$26.0 Million) |
| Dental Renewal | 0.9% (\$0.2 Million) |

Medical/Rx Comments:

- 1) Renewal assumes STAR plan changes in accordance with Federal requirements for the deductible limit.
- 2) Assumes 7.2% projected trend (7.3% medical, 7.0% Rx).
- 3) Aggregate premium increase is 7.2% while the budget increase will be slightly different based on final employer HSA contributions.
- 4) Assumes network premium differential of about 3.5% that would increase the member contribution rate for the Advantage network and reduce the member contribution rate for the Summit rate.

Dental Comment:

- 1) Projecting a renewal of 0.9% for the State of Utah for 2024 / 2025.
- 2) Assumes 1.6% projected dental trend.